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The lessons investors should learn from a wobbly week in the financial markets: leader

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Politics this week

Mar 1st 2007
From The Economist print edition

In a shift of policy the Bush administration said it would take part in a regional meeting this month organised by **Iraq's** government, even though Iran and Syria would take part too. See article

The **Iraqi** government said its main factions had at last agreed to a draft law on how to regulate the oil industry and share out its revenue, though some final touches had still to be made.

The five permanent members of the UN Security Council plus Germany discussed ways of tightening UN sanctions against **Iran**, in the wake of its refusal to comply with previous UN resolutions ordering it to suspend its enrichment of uranium.

The African Union asked for extra cash to pay for its proposed peacekeeping mission to **Somalia**, where Ethiopian troops recently overthrew an Islamist government. Only Uganda has said it is ready to send troops, offering 1,500; Nigeria, Ghana, Burundi and Malawi may also chip in, bringing the number up to around 4,000, but the AU says 8,000 are needed.

The International Criminal Court at The Hague named its first two suspects to be summoned for alleged atrocities in the **Sudanese** region of Darfur: a former junior interior minister in Sudan's government and now its minister for humanitarian affairs; and a leader of the *janjaweed* militias that have killed thousands of civilians. See article

Sierra Leone's former defence minister, Sam Hinga Norman, who was being tried for war crimes at a UN-backed tribunal in Senegal, died before a verdict was due, apparently of a heart attack.

Senegal's president, Abdoulaye Wade, was re-elected in a landslide, with opponents crying foul.

A reprieve for Prodi

Italy's centre-left government is back, after narrowly winning a vote of confidence in the Senate, where it lost a big foreign-policy vote last week. But few Italians expect the government to last for anything like its full term. See article

The International Court of Justice in The Hague ruled that **Serbia** was not directly responsible for genocide in **Bosnia** during the 1992-95 war. But it said that the massacre of some 8,000 Bosnian Muslims by Bosnian Serb troops at Srebrenica in 1995 did constitute genocide, and it denounced Serbia for failing to prevent it. See article

AP

A surge of support for the centrist candidate for the **French presidency**, François Bayrou, unsettled the two front-runners. One opinion poll gave Mr Bayrou 19%, compared with 25.5% for the Socialist candidate, Ségolène Royal, and 29% for the centre-right's Nicolas Sarkozy. See article

Two **Picasso** oil paintings with a combined value put at *euro*50m ($66m) were stolen from his grand-daughter's home in Paris.

Tipping the balance

Canada's Supreme Court revoked a law allowing foreign terrorist suspects to be detained indefinitely without trial while waiting for deportation. Later, Parliament voted against renewing two other anti-

terrorist measures allowing suspects to be held for three days without charge and compelling witnesses to testify in terrorist trials. See article

Fidel Castro, Cuba's ailing president, spoke live on a radio programme for the first time since falling ill last July. The 80-year-old leader, who is said to be suffering from diverticulitis, a bowel disease, said he was “gaining ground”, but did not say when, or if, he would return to work.

The war effort

America's vice-president, Dick Cheney, visited **Pakistan's** president, General Pervez Musharraf, and asked him to do more to tackle the Taliban and al-Qaeda fighters taking refuge in Pakistan's tribal borderlands, before an expected spring offensive by Taliban fighters against NATO forces in Afghanistan. See article

Mr Cheney went on to **Afghanistan**, where a Taliban suicide-bomber attacked the military base at Bagram where he was staying. Mr Cheney survived. The bomber and 11 others did not. Meanwhile, Britain followed America in announcing an increase—of 1,400 soldiers—in its commitment of troops to Afghanistan.

Pridiyathorn Devakula, **Thailand's** finance minister resigned, opening further cracks in the troubled military government that seized power in a coup last September. See article

Reuters

India's ruling Congress party suffered electoral setbacks in two northern states, Punjab and Uttarakhand. Its loss of power in both states was blamed in part on popular anger at rising prices. Curbing inflation was a central theme of the annual budget, unveiled in Parliament by the finance minister. See article

Sixteen Indian soldiers were killed in a grenade attack on a convoy of army trucks in the north-eastern state of **Manipur**. The attack was blamed on one of many insurgent groups fighting Indian rule there. See article

Timor-Leste's prime minister, José Ramos Horta, said he would run for president in April's election. As instability in the country persists, he asked Indonesia to close its border with Timor-Leste, to prevent the flight of a group of army mutineers. See article

Straight talking on Letterman

Reuters

John McCain confirmed on a talk show that he would run for president, but said he was saving a formal announcement until April. Earlier, Mr McCain received a fillip to his nascent campaign when he was endorsed by Senator John Warner, who is a strong critic of George Bush's policy of extra troops for Iraq, a policy which Mr McCain supports.

Virginia's legislature voted to express “profound regret” at the state's historical role in **slavery**. Separately, it emerged that the ancestors of the Rev Al Sharpton, a prominent black activist, were slaves owned by ancestors of the late Senator Strom Thurmond, a prominent segregationist.

Arthur Schlesinger died at the age of 89. The prolific historian wrote about the New Deal, the cold war and the Kennedy administration, to which he was an adviser, but he is best known for his 1973 book, “The Imperial Presidency”, which has experienced a revival of late.

Richard Daley shrugged off his opponents' accusations of corruption at City Hall and cruised to a sixth term as mayor of **Chicago**, winning more than 70% of the vote.

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Business this week

Mar 1st 2007
From The Economist print edition

Stockmarkets around the world fell precipitously on February 27th, sparked by a drop of 8.8% in the Shanghai Composite Index, which was triggered by a threat of tighter regulation on trading—later withdrawn. As investors in Asia and Europe took fright, American markets also digested comments from Alan Greenspan, the former head of the Federal Reserve, concerning a possible recession, as well as some poor economic data. The Dow Jones Industrial Average had its worst day in almost four years. See article

Yet another record was set for the biggest leveraged buy-out when a private-equity consortium led by **Kohlberg Kravis Roberts** and **Texas Pacific Group** agreed to buy **TXU**, a Texan power company, for around $45 billion. The private-equity firms stressed the deal's green credentials (bolstering support ahead of any potential regulatory scrutiny) by announcing that TXU would reduce the number of coal-fired power plants it was planning to build from 11 to 3. See article

Rejigging the engines

Airbus unveiled a long-awaited restructuring plan, which had been held up by last-minute negotiations between France and Germany. Some 10,000 jobs are to go over four years, split between Airbus and its contractors. New “industrial partners” and buyers are being sought for six factories. In order to win backing for the plan in France (where outraged unions called for industrial action), final assembly of the A350 XWB jet will be exclusively based in Toulouse, but Germany is to win increased production of the bestselling A320 narrow-bodied aircraft. After last year's woes, Airbus forecast that the plan would provide it with eventual annual savings of *euro*2.1 billion ($2.8 billion). See article

Italy's government increased the size of the stake it is selling in **Alitalia** to 39.9% (from the 30.1% announced last December). New conditions were also attached to any potential sale, such as retaining the loss-making airline's base in Italy.

Deutsche Telekom reported a surprise net loss of *euro*898m ($1.2 billion) for the fourth quarter. The company booked charges related to its effort to shed 32,000 jobs, but it is also suffering from the continued drain of customers away from its fixed-line business.

In a sign of the further strengthening of Ferdinand Piëch's hand at **Volkswagen,** the carmaker raised its stake in **MAN**, a German lorry-maker, to nearly 30%. Mr Piëch, VW's chairman, has proposed a merger of its heavy-truck division with MAN and Scania, a Swedish lorry-maker in which VW also retains a large stake.

Co-operation on corruption

The **European Bank for Reconstruction and Development** barred a German engineering company from its contracts because of corruption in a project backed by the World Bank in Lesotho. It is the first time one development bank has barred a firm for mischief on another bank's project (the World Bank has already blacklisted the company).

Citigroup named Gary Crittenden as its chief financial officer. Mr Crittenden, who has spent the past seven years at American Express, joins the world's biggest bank amid criticism from shareholders that it has dampened profits by running up expenses. See article

Station Casinos agreed to an $8.8 billion buy-out from a group of investors led by Frank and Lorenzo Fertitta, respectively the company's chief executive and president. Operating casinos away from the Strip that cater to locals, Station also owns large tracts of lucrative undeveloped land around Las Vegas.

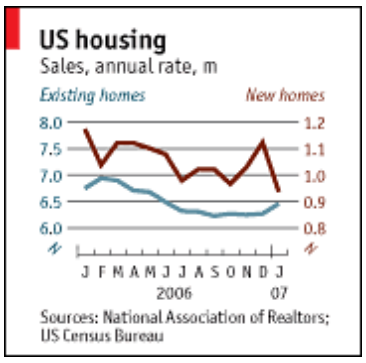
Blockbuster reported a 28% drop in fourth-quarter net profit compared with a year ago, as the promotion costs for its online service soared. The film-rental company also said it was trying to “resolve a disagreement” with its chief executive over his bonus.

Wal-Mart made an expansive move in China by acquiring 35% of the operator of **Trust-Mart** hypermarkets. The deal throws down a challenge to Carrefour, China's biggest foreign retailer. Trust-Mart's stores are located in city areas where space is at a premium.

Following last year's debacle over a Dubai company buying American port operations, the House of Representatives voted 423-0 to pass a bill, supported by the White House, that strengthens the government's scrutiny of **foreign deals** in the United States.

A range of properties

There was good news and bad news for America's housing market. Sales of **existing homes** rose to an annual rate of 6.46m in January, the highest level for seven months. But after increasing in December, the median price of an existing home fell by nearly 5%, to $210,600. Separate data for the smaller market in **new homes** showed that sales plunged in January by 16.6%, to an annual rate of 937,000—the biggest drop in 13 years.



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Markets and the world economy

A walk down Wall Street

Mar 1st 2007
From The Economist print edition

The lessons investors should learn from a wobbly week in the financial markets

Getty Images

THE beating of a butterfly's wing? No: it was more than that. A snort from a dragon's nostrils? That is more like it. A fall of 8.8% in China's main stockmarket index on February 27th rumbled around the world, clobbering share prices just about everywhere. And when American traders looked at the news about their own economy—companies' weak orders for durable goods, worries about “subprime” mortgages, and Alan Greenspan, no less, musing about the possibility of recession—they took fright. On the worst day for American shares since March 2003, sell orders were so heavy that at one point the New York Stock Exchange could not process them all.

Although the stockmarkets commanded the headlines, more telling evidence of the jitters lay in the many other places in which people buy and sell ever more arcane flavours of risk (see article). Lately, investors have been blithely content to chase yield wherever it might be found, not least in the private-equity market (see article). This week they were reminded that this can be a dangerous game. Up, sharply, went the standard measure of stockmarket volatility, itself a tradable item. Up too went credit spreads on corporate bonds, especially the more daring stuff, as well as emerging-market debt and the price of insuring against default. And up went the yen, pushed lower these past few weeks by “carry traders” borrowing cheaply in Japan and lending for more elsewhere.

No one yet knows whether this week's shudders mark a pause before prices glide serenely upwards again or the start of a proper tumble. One apparent cause of the Shanghai slide, a rumour of a planned tax on capital gains from shares, was denied. The market steadied there on February 28th, but fell again the next day. Markets in Europe and elsewhere in Asia were nervous, though Ben Bernanke, Mr Greenspan's successor at the Federal Reserve, seemed to have soothed Wall Street. Given that people still argue over the reasons for the crashes of 2000, 1987 and 1929, it would be premature, to say the least, to tie this week's events too closely to basic economic causes.

Not made in China

You can say, though, that the fall in the Chinese market may simply have been the jolt the markets needed to take a second look at the risks they have been taking. The natural starting point is the American economy. Long before it was confirmed on February 28th, the downward revision of fourth-quarter GDP growth, to 2.2% at an annual rate, was expected. And the economy appears to have begun

the year sluggishly (although bad weather has made it harder than usual to tell). There had been signs that the bond markets had twigged, with Treasury yields falling in the past few weeks. Until this week, however, the markets for shares and many other things did not seem to have taken all this on board. Now, perhaps, they have.

One sign that things are slowing down came in the form of those disappointing orders for durable goods, which fell by 7.8% in January, far more than expected even after stripping out surprisingly poor demand for aircraft. Granted, America's firms have been oddly reluctant to invest for a while, considering the cheapness of borrowing and the huge profits that have been pouring into their coffers, but this was shocking. That American companies are not confident of investing profitably is reflected in forecasts for annual profits growth, which have fallen into single figures after three and a half years in double-digit territory. Having chopped and diced the past few years' numbers and adjusted for changes to accounting rules, Albert Edwards, a market watcher at Dresdner Kleinwort, even reckons that the recent profits record of non-financial firms is no more impressive than in the mid-1990s.

Bricks and dust

A second and perhaps bigger source of concern is the housing market. The commonest view runs something like this. Yes, the housing market has slowed. Yes, the fall in residential investment has whacked the GDP figures, but the market seems to be settling down again. And consumer spending has gone along merrily. Just look at the fourth-quarter accounts: consumption was strong enough to explain the whole of the addition to GDP and more. This week the Conference Board's measure of consumer confidence hit a five-year high. So there is probably nothing to worry about.

Well, perhaps. The stock of existing homes, relative to monthly demand, remains high and the backlog of new homes is rising. The housing glut is likely to weigh on prices and on building—and hence on the economy—for a while. It is hard to believe that consumer spending will be unaffected, once homeowners realise that their houses are no longer doing their saving for them simply by going up in price. At the risky, subprime end of the mortgage market, there are already signs of distress: defaults and foreclosures have been soaring. This week Freddie Mac, one of America's two giant quasi-governmental mortgage companies, said that it would curtail its purchases of those subprime loans most likely to go wrong. The subprime market is too small to have much aggregate effect, but credit terms are getting a little meaner for mainstream borrowers too. According to the Fed, 15% of banks reported tightening lending standards in the three months to January, the most since the early 1990s.

How much should the rest of the world worry about America? It would be silly to claim that a slowing American economy would make no difference at all. But it is far from silly to observe that, on the evidence so far, the rest of the world is doing quite nicely. Indeed, in the fourth quarter of last year net trade made a handsome contribution to the gain in America's GDP, implying that foreigners pulled America along, rather than the other way around. In China, for instance, consumer spending is stronger than official figures suggest. Europe's economies, notably Germany's, look much less sleepy than they did a couple of years ago. Domestic demand is now the euro area's main engine, although some of the investment that makes up much of this is doubtless intended to produce goods for export. Signs of a tightening labour market in the euro zone (see article), though they vex the European Central Bank, may be no great worry if fatter wage packets can be combined with rising employment to feed consumer spending.

In any case, an American slowdown is only to be expected. The markets (and perhaps Mr Bernanke) may have cursed Mr Greenspan for mentioning recession. In fact, he spoke a lot of sense. He did not say recession was likely. He merely noted the truth: that corporate America's profit margins “have begun to stabilise”, a sign that the economic cycle is entering its later stages. The cycle, in other words, has not been abolished.

If this week has served as a reminder of that, so much the better. So much the better, too, if it has made investors stop and ask whether, at the returns on offer, it is wise to run after emerging-market shares, virtually any sort of corporate bond and the privilege of insuring lenders against the risk that goodness knows who will default on a loan. And if not? Then the next slip on the tightrope could be much nastier.

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Private equity

Barbarians in the dock

Mar 1st 2007
From The Economist print edition

The attack on private equity is nakedly political

AllStar

GET out the shoulder pads and the leg warmers: the 1980s are back. Once again, omnipotent and fabulously rich financiers are storming huge public companies. And once again, they are being denounced as “asset strippers” prepared to wreck companies and lives in their desire for personal gain.

The archetypal predator 20 years ago was Gordon Gekko, a fictional corporate raider armed with the philosophy that greed is good. This time the villains are private-equity partners, who earn fat fees for attempting to turn around struggling companies. Britain has worked itself into a bizarre frenzy as unions, the press and gallery-playing Labour MPs rush to condemn private equity. But it is not alone (see article). Over the past months, private equity has been a whipping boy in Australia, South Africa and much of continental Europe. If this week's record $45 billion buy-out of TXU, a Texan utility, leads to higher electricity prices or losses for pension-fund investors (see article), the fuss could spread to America.

Some of the wilder criticisms of private equity are hard to fathom: the British union leaders leading the current assault sometimes confuse private equity with venture capital (money for start-up companies, which has hitherto been something even hard left-wingers approve of). But there are three central charges: that private equity destroys jobs and runs businesses on a shoestring, neglecting investment and ill-treating workers; that it unfairly benefits from tax breaks on interest payments; and that it is secretive, partly because it wants to conceal the excessive sums it pays managers.

Most of this is wide of the mark. True, the immediate result of a takeover is often cost cuts and job losses, but that happens regardless of whether the buyer is a private-equity firm or a rival listed company. Buyers do not set out to destroy their new prize. Private equity stands to make more money from investing in a business than shutting it down, because a growing company is worth more than a shrinking one. Indeed, studies have shown that buy-outs in Britain create jobs in the longer term and that buy-outs which rejoin the stockmarket perform better than other new issues on Wall Street.

As for transparency, publicly quoted companies need to divulge information because of the risk that well-informed managers will bilk their disparate band of faraway shareholders. With private equity, the company's owners sit closely beside managers and are intimately involved in decision-making. They have no incentive to mislead themselves. Indeed, investors' ability to monitor managers—and pay them appropriately—is one reason for private equity's success.

What about the alleged need to be transparent to society? The short answer is that private companies are subject to the same rules as other businesses; they have to file public accounts, obey employment

laws, pay the minimum wage and all the rest. (The one thing they do not have to reveal is pay, but interest on that score is largely motivated by prurience and envy.) Although altruism is hardly the first thing one associates with the partners of the Blackstone Group or Kohlberg Kravis Roberts, their record as corporate citizens seems no more barbaric than that of public companies. TXU under private equity will depend less on coal-power and hence stands to be greener than it would have been as a public company.

Lastly, private-equity companies have no more tax privileges than any other firm. It is a general principle around the world that interest payments should be tax-deductible: the tax is paid by the lender, not the borrower. The difference is that private equity finds it easier to borrow, partly because it is a long-term investor—the sort of “patient” capital that the left usually holds up as preferable to all those nasty short-termists in the stockmarket. Ironically, Britain's finance minister, Gordon Brown (lamentably quiet in the current row), cut the tax attractions of shares when he first came into office, hoping to encourage listed companies to invest their excess profits rather than paying out dividends. One unintended consequence of tinkering with equity was to favour debt.

Yet even if taxing interest were right in principle, it would be hard in practice. The state could not tell between “bad” businesses owned by private-equity groups and “good” private companies. Some European countries want interest above a threshold to be taxed, but that would only tip the most heavily indebted companies over the edge, destroying jobs.

Greed, for want of a better word

The best standpoint to criticise private equity is as an investor. It is not just that private-equity firms have begun to pay absurdly high prices; investors pay them too much. The average firm's fees are too high to justify a return that, academics suggest, is merely a geared play on Wall Street. The habit of charging huge fees for arranging deals does not align the interests of investors and managers. It was investors who suffered in the 1980s from the last round of private-equity excess. The workers of the world should be worried again—but as pension-fund members, not as political activists.

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The axis of the formerly evil

Very well, let's talk

Mar 1st 2007
From The Economist print edition

Welcome America's decision to talk to Syria and Iran—but don't expect too much

BIT by bit, and with visible reluctance, George Bush is accepting the need to do business with the countries he tried at the beginning of his presidency to consign to an "axis of evil". In February he said he was "pleased" by a deal that will send aid to North Korea even before it gives up the atomic bombs Mr Bush once said he would never allow it to obtain. Now Condoleezza Rice, America's secretary of state, has told Congress that American envoys will later this month sit at the table with Iran and Syria at an international conference being convened in Baghdad by the government of Iraq.

Why he turned

Events have not lately been going swimmingly for Mr Bush either on the ground in Iraq or up at the other end of Pennsylvania Avenue. Many members of the new Congress, Republicans as well as Democrats, are eager to bring the boys home from a war they think America has already lost. In December the bipartisan Iraq Study Group led by James Baker and Lee Hamilton told Congress that one way to prevent further chaos was to include all of Iraq's neighbours in a new diplomatic offensive, and especially to "engage constructively" with Iran and Syria. Having rejected the group's other main recommendation—the beginning of a phased withdrawal of combat forces—Mr Bush has evidently decided to give his critics on the Hill a part at least of what they have been asking for.

Whether or not this about-turn helps to appease Congress (see article), its impact on Iraq is almost certain to be beneficial. The Shia-dominated government of Nuri al-Maliki has never received much support from its Sunni Arab neighbours, some of whom see it as the creature of an increasingly assertive Iran. Foreign fighters enter Iraq from Syria to help the Sunni insurgency; Iranian arms and agents flow across another border to support the Shia militias. No even moderately stable future looks possible without some sort of co-operation between Iraq's American occupiers and its Arab, Persian and Turkish neighbours. If all goes well, this month's meeting in Baghdad, and a second one planned at a more senior level for April, could blossom into a "contact group" of the sort that proved fairly helpful in Bosnia during the Balkan wars.

Talking is good. But it would be wrong to expect too much from this particular set of negotiations. For many of these interlocutors have sharply conflicting interests. One of Iran's aims is, bluntly, to make America fail. The two countries are locked in a trial of strength over Iran's nuclear ambitions. America, Syria and Iran are also on opposite sides in the conflicts between Israel and Hamas and between Hizbullah and the government of Lebanon. It is possible that in the margins of the talks in Baghdad American and Iranian envoys could broach such broader questions, including the nuclear one. But there is little evidence on any of these fronts of a grand bargain in the making. Indeed, this week's change of tack by Ms Rice coincided with a new push by America and Europe for tighter anti-nuclear sanctions on Iran.

In December Mr Baker and Mr Hamilton noted that none of Iraq's neighbours wants it to collapse altogether. That is true, and a small reason for optimism. But this is not the sort of civil war that any outside power or collection of them can now stop at will. Though foreign jihadists and meddlesome neighbours add to the violence, its main cause is the refusal of Iraq's own Sunni minority to accept a new order dominated by Shias—and the reluctance of the Shias to make the concessions that could change the Sunnis' minds. The Americans and the neighbours can help or hinder progress, but Iraqis themselves need to make the peace.

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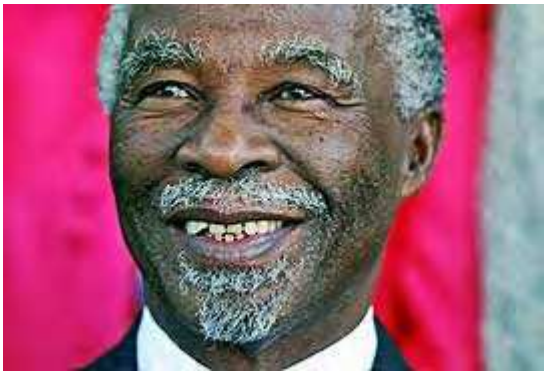
South Africa

Just lighten up a little

Mar 1st 2007
From The Economist print edition

The country is doing well. It would do better if there were more criticism and an opposition

EPA



Get article background

THIRTEEN years after the system of apartheid gave way to a freely elected black-majority government, South Africa is on the whole doing pretty well. It is by far the beefiest country in Africa. By some calculations, its GDP is almost as big as the rest of sub-Saharan Africa's other 47 countries put together, and has been swelling steadily since the African National Congress (ANC) took the reins of government in 1994.

Moreover, it has been providing a good example of democracy and steadiness in a continent where tyranny and bloodshed are still tragically common. South Africa has contributed admirably to the cause of peace in Africa's bleaker reaches, helping to negotiate agreements to quell civil strife and bolster democracy. The main blot on this worthy record is President Thabo Mbeki's continuing failure, born of a misguided sense of racial and comradely solidarity, to use his authority to help remove the despotic Robert Mugabe from power in neighbouring Zimbabwe.

Much of the credit for the successes must go to the first post-apartheid president, Nelson Mandela, whose grace and magnanimity let white rule end without reprisals or the ruinous flight of whites. But Mr Mbeki played a part too, especially in ditching a Marxist economic model which the ANC had promoted during its long decades in the liberation wilderness. And Mr Mbeki has undertaken what sounds like a personal mission to redeem the rest of Africa by spreading the word of good governance and liberal economics. So why has a note of sourness crept in (see article)?

The black man's burden

One reason is that the economic job ahead is still so daunting. Although many millions more South Africans now have directly supplied electricity, free or cheap water and decent brick houses, a good half still live in dire poverty; at least a quarter—40%, by some definitions—have no jobs. The growth of a small but highly visible black middle class stirs resentment among the poor. Though some types of crime have dipped, others are rife: more than 18,000 people were murdered last year, one of the highest rates in the world. Even more devastating is the plague of HIV/AIDS, which has struck some 5.5m South Africans and shows little sign of abating.

Weighed down by apartheid's legacy, the government cannot be blamed for the onset of these afflictions. But its responses have been patchy and prickly. Its policy of “black economic empowerment” and a raft of affirmative actions to put more of the economy into black hands have created a swathe of public-sector jobs and a new culture of patronage. This may have been politically necessary but in the long run could slow economic growth, which is what will pull the poorest out of their pit and reduce crime. Mr Mbeki's response to the AIDS catastrophe has been lamentable. He now seems to accept a link between HIV and AIDS and his government is belatedly rolling out a huge anti-retroviral programme, but he still seems loth to promote it properly.

The biggest worry for the future, however, is that a mature multi-party democracy has yet to evolve. The ANC faces no serious electoral danger from the feeble opposition parties; the punchiest is dismissed by black voters as a relic of the white-minority past. Despite this, ANC politicians seldom take criticism in

good part. Too often they impute racism to those who disagree. It is all the more vital, as the ANC sets about choosing a new party leader by the end of the year who will almost certainly become president when the ANC-dominated Parliament chooses one in 2009, that it resists the populist temptation to turn its back on tolerance and moderation. Its worst choice would be Jacob Zuma, a former vice-president whose acquittal on a rape charge and lingering accusations of fraud in no way make him a suitable candidate for Africa's top job.

One day the ANC will face a stronger opposition, perhaps from within: the party may then split. The best legacy Mr Mbeki can leave, for South Africa and the wider continent, is a willing acceptance that the ANC is not pre-ordained to rule forever and that a robust opposition is entirely desirable.

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The United States and Latin America

Mr Bush goes south

Mar 1st 2007
From The Economist print edition

How America can win the battle for influence against Venezuela's Hugo Chávez

Reuters

IF YOU are George Bush, the prospect of spending a week in Latin America must be appealing just at the moment. How better to escape an unappreciative Congress and ungrateful Middle East? And if during the Latin American tour he starts on March 8th Mr Bush bumps into the odd demonstration, so what? That can happen anywhere nowadays.

Mr Bush cannot be completely relaxed in Latin America. The United States is locked in a regional battle for influence with Venezuela's oil-intoxicated autocrat, Hugo Chávez. Yet the worst thing for Mr Bush to do if he wants to win that battle is to talk too much about Venezuela on this trip: that would only puff Mr Chávez up further, and attract the usual Latin grumbles about *yanqui* bullying. So it is excellent that Mr Bush intends to spend most of his time in the region's three most populous countries, Brazil, Mexico and Colombia.

Mr Bush has serious business to do at each stop (see article). Brazil is one of many countries in Latin America that could supply the world with cheap ethanol if only the United States scrapped the tariffs and subsidies that protect its own less efficient maize and sugar farmers. Colombia needs continued American help against the cocaine gangs and the violence they spawn. In Mexico Mr Bush will have to talk about immigration. Tighter security has made it much harder for Mexican workers to cross illegally into the United States, but their labour is still needed and Mexico is still waiting for America to come up with a way to let more enter legally.

If he offered more help on these fronts, Mr Bush could give Latin Americans the sense of partnership with the United States that is missing at present. But to do so he will have to take some work home. For on immigration and trade it is now Congress rather than the White House that holds the key to progress. And although immigration reform still looks possible, the trade outlook is bleaker. The Democrats who control Congress may in the coming months approve free-trade deals with Peru and Panama, but look set to block one with Colombia because they are angry about revelations linking Álvaro Uribe's government to right-wing paramilitary groups. Mr Bush needs to persuade Congress that that would be a mistake. The revelations have come to the surface because of the growing vigour of democracy in the less violent Colombia Mr Uribe has delivered. He deserves continued support.

Respect sovereignty, but speak up for democracy too

As for Venezuela, Mr Chávez is no friend of the United States (he calls it simply “the empire”) and seems to enjoy the company of other anti-American demagogues, from Iran's President Mahmoud Ahmadinejad to London's publicity-hungry mayor, Ken Livingstone. But if he poses a danger, it is to the rest of Latin America, where his simplistic ideas are sometimes popular, rather than to the United States, which even after the mid-term elections does not seem to be lusting for a “Bolivarian revolution”. By the same token, it is the other governments of Latin America, rather than the United States, that are best placed to counter his influence.

They have no right to interfere with his programme of nationalisation, however wrongheaded it may be, or the rest of his economic policy: those things are the sovereign business of Venezuela. And it is a mere three months since Venezuelans gave Mr Chávez a strong mandate in a pretty fair election. Yet his neighbours should not allow the money and cheap oil Mr Chávez splashes around their region to stop them from speaking out when he appears to be hollowing out democracy in a part of the world where it is still fragile. Mr Chávez is promising to silence the main opposition television station. He has given himself powers to rule by decree for the next 18 months and proposes to scrap the term limits in the constitution so that he could stand for re-election indefinitely.

Brazil's Lula says that he quietly urges moderation on his Venezuelan counterpart, but there is no evidence that this is changing Mr Chávez's direction of travel. If he continues on the same path, Latin America's democrats will soon have to consider whether he belongs in their clubs. Mr Bush should meanwhile concentrate less on what he would like the rest of Latin America to do to Mr Chávez and more on what the United States can do for the rest of Latin America.

Stop helping Fidel

One of the biggest gestures Mr Bush could make would be to support moves to scrap the United States' unfair and counter-productive trade embargo against Cuba, a country that no longer poses any threat to the United States and whose people are now daring to contemplate what a post-Castro future might look like. Slamming the door on closer economic co-operation in the Americas, whether inspired by protectionism or ideology, is a gift to Mr Chávez and his supporters in other countries. If the United States wants a hemisphere led by pro-market democrats, it should give the region's people every help they need to work and trade their way to prosperity.

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The importance of statistics

Lies, damned lies

Mar 1st 2007
From The Economist print edition

Government figures must be trustworthy. Britain's new system does not pass that test

Claudio Munoz

JOHN COWPERTHWAITE, the British civil servant who ran Hong Kong's finances from 1961 to 1971 and helped create its free-market economy, despised statistics. Governments should not collect them, he said, lest they be provoked into attempting to remedy perceived ills—and mess things up.

Nowadays not many share his views. The UN says every country should have a national statistics office, governed by a statistics law to guarantee quality and independence. The OECD's comparisons of national figures on health, education and economic activity are used to encourage laggards. Countries that have managed until now to produce statistics with no specific legal framework, including Britain, are increasingly strengthening their statistical systems with legislation.

Cowperthwaite's suspicions notwithstanding, this is surely a good thing. Of course, the odd official number will encourage the odd government to do something foolish, but they have plenty of other provocations. Far from letting governments loose, statistics are often an economic liberal's best friend, a way to hold Leviathan to account.

But only if those numbers can be trusted—and that requires three things. The first is money. Luring statisticians away from the fleshpots of high finance means paying them well. And good numbers don't come cheap. Britain's next decennial census alone will cost £500m ($980m), America's $12 billion.

The second condition is that the numbers be produced by professionals free from political interference. Argentine statisticians have taken to the streets to protest against the removal of the official in charge of inflation figures after she supposedly refused to change the way they were calculated. The inflation figure the Argentines reported for January was one-third lower than independent analysts reckoned it should be. Usually, though, political pressure is more subtle. Bean-counters are often overruled in technical matters, such as how figures are to be aggregated into indices and when to drop a series.

This points to the third prerequisite for public trust: even if the numbers are correct, they must reach the public as free as possible from political spin. This particularly matters once you move away from hard economic data to softer numbers on crime, education and social policy. Norway is a paragon: the statistics office publishes figures with its own analysis, according to its own timetable. Government ministers see the information at the same time as everyone else, so they cannot mine the data for the bits that flatter them.

Stand up and be counted

Britain, whose number-crunching systems have provided a model for many other countries, is now a crucial battleground for two reasons. First, it is the country fondest of targets, from hospital waiting times reduced to school classrooms built. Second—and this is not a coincidence—it is the country where statistics are most obviously spun by politicians. Crime figures, for example, come from the government department charged with fighting crime, embedded in press releases putting the best gloss on hard-to-interpret series. Fewer than one Briton in five believes official figures are produced objectively.

So in principle, the government's plan to create an “independent statistical service” is to be welcomed. But closer inspection of the scheme, which is due for a parliamentary hearing on March 13th, reveals it is nothing of the sort (see article). Not all government figures will fall under the new statistics board's remit. Ministers will continue to see data well before everyone else. Meanwhile an existing statistics watchdog, respected though toothless, is to be abolished.

How sad. All governments find it tempting to tweak the numbers they are judged by. But in doing this they deprive themselves of the best guide to future policymaking. And they also create a self-defeating spiral of distrust in which even the numbers they have not tweaked are disbelieved. Cowperthwaite may be smiling; but Tony Blair and Gordon Brown should be ashamed of themselves.

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On global warming, Europe's future, Anna Nicole Smith, visas, Israel and Palestine, transporting cash, the Romans

Mar 1st 2007
From The Economist print edition

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Temperature control

SIR – Your article on the fourth report of the Intergovernmental Panel on Climate Change (IPCC) concludes that the range of the IPCC's predictions of the rise in temperature by 2100 "leaves plenty of scope for argument about whether it is worth trying to do anything about climate change" ("Heating up", February 10th). This misinterprets the IPCC's report, which presents best estimates of the rise in temperature between 2000 and 2100 for several different emission scenarios. The lowest emission scenario (range 1.1-2.9°C) would probably warm the planet by 1.8°C. The best estimate for the highest emission scenario is a rise of 4.0°C (range 2.4-6.4°C).

The provision of ranges for each emission scenario actually represents a significant reduction in uncertainty compared with the IPCC's third report. The key point is that the amount of global warming depends on which emission path we choose. When the new estimates are added to the 0.6°C of warming that has happened during the 20th century, the fourth report shows that it is indeed worth doing something. Even if we choose the lowest emission path we can expect warming of about 2.4°C by 2100, relative to pre-industrial times. Given that warming greater than 2°C puts us at risk of irreversible changes to the climate system, our path of action is clear: we must ensure our output of greenhouse gases is under the range of the lowest emission scenario and well below "business as usual".

Sean Nixon
Sierra Legal
Vancouver

Europe's future

SIR – Charlemagne believes there are "only two basic types" for a multi-speed Europe ("Coalitions for the willing", February 3rd). "Multi-speed" suggests Helmut Kohl's idea of a convoy with some catching up later on. The first type, the idea of concentric circles advocated by Mr Kohl's adviser, Michael Mertes, is based on the assumption that there would be one legal framework but that some could join later or alternatively remain on the margin. The second type assumes that there would be a centre of gravity around the single market but within a framework that assumes the *acquis*, the body of European Union law and regulations, and again a central legal framework. Both of these create a second-class membership, which is wholly unacceptable. Both "enhanced co-operation" (a legal term of art) and "variable geometry" suffer from the assumption of an overarching legal order and an *acquis* set in concrete.

A "multi-dimensional", rather than multi-speed, approach would be more appropriate. As you point out, the EU at present subscribes in theory to a system that does not exist or work in practice, but there is clearly another way. A far better formula is an association of nation states along the lines of the European Free Trade Area. The world has moved on since the EU was originally conceived and the case for an association of nation states is now stronger than ever. Multi-dimensional, not multi-speed.

Bill Cash, MP
House of Commons
London

Blonde bombshell

SIR – I have long considered the influential lives portrayed in your weekly obituary to comprise a deserving, exclusive club, to which I could only aspire. However, now that you have immortalised the "pneumatic" Anna Nicole Smith (Obituary, February 17th), who was unskilled, uneducated and untalented, and despite her having absolutely no impact on the global economy, world politics or the advancement of the human species, it is clear that I must set my sights higher, or engineer bigger breasts.

Donna Anton
Hayle, Cornwall

SIR – I am dismayed that you followed the tabloids by devoting a page to Ms Smith and acquiesced in her life-long wish to be compared to the incomparable Marilyn Monroe.

Melissa Perez
Ann Arbor, Michigan

A welcome sign

SIR – Allow me to add a few facts to your article on the "disquiet" over visa restrictions on visitors to the United States ("Keeping out more than terrorists", February 10th). Applicants for visas receive an appointment within 15 days at 80% of our diplomatic posts and we are aggressively reducing backlogs at the rest. Once approved, 97% of visas are issued within two days of the interview; half of the remainder are issued within two weeks.

All diplomatic posts expedite student and business visas, often in conjunction with the local American Chamber of Commerce. The result? You correctly noted that 12% more business visas were issued last year than in 2005, but the figure is even higher in some countries such as Brazil, China and South Korea. We've created 570 consular positions to handle the growing demand and more are on the way. Welcoming foreign visitors is critical to this country's economy and national image; the best advertisement for America is America.

Maura Harty
Assistant secretary for consular affairs
State Department
Washington, DC

Keeping a promise

SIR – As you say, in order to lift its boycott the Western world has set three sensible conditions on the Palestinian Authority ("A holy but puzzling alliance", February 17th). But when will we set the same three conditions on Israel: to recognise Palestine, to renounce violence and to keep their side of previous agreements? How can we expect peace in the Middle East when we boycott the Palestinians yet reward Israel with billions of dollars of aid when both sides are ignoring the basic preconditions for peace? The conditions are simple. Apply them equally to both sides and peace will have a chance.

Kamal Hassan
Toronto

The very good old days

SIR – I was interested to read that there were 700 raids on cash-transport vehicles in Britain in 2005 ("We were Heros", February 10th). In the 1930s I worked opposite a bank in the City of London. From time to time a horse-drawn wagon with a canvas top would pull up outside the bank. The driver would remain in his seat while a lad got out to lower the tailgate so that the bank's employees could meander out with gold bricks and place them in the wagon. The lad then closed the tailgate, climbed back into the wagon and off it went. A policeman standing nearby while the loading was being done would then wander off. How times have changed.

Brian Lowe
Rosebud, Australia

Citizen army

SIR – The idea of recruiting foreigners to serve in an army has a long tradition ("The green-card brigade", February 3rd). The Romans recruited men-at-arms from border tribes to defend their empire and found that when given citizenship, the tribesmen were more Roman than the Romans and became very enthusiastic about fighting their former brethren.

Bo Herman
Rotterdam

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South Africa

The long journey of a young democracy

Mar 1st 2007 | JOHANNESBURG
From The Economist print edition

Africa's richest country, not yet free of demons, is facing a year of decision

Corbis

Get article background

THE township of Soweto, Johannesburg's largest, was once a byword for violence and black deprivation. Look at it now. In the Diepkloof neighbourhood, shiny new cars are parked next to elegant houses protected by security systems. Shopping malls are planned, banks have opened and tourists are coming. New bars and restaurants stay open all night, drawing in the rich blacks who now live, during the week, in quiet suburbs of Johannesburg that used to be all-white.

Even the poorest corners of South Africa now look better. Roads are being paved. People who were left in the dark and cold by the apartheid regime, which ended in 1994, now have lights, a roof over their heads and access to fresh water. Flush toilets are replacing buckets. Black South Africans are pushing up property prices and propelling the economy in general; black economic empowerment, brought in to redress the injustices of apartheid, has spurred the creation of a small but wealthy black business elite.

The economy is now growing steadily, at almost 5% last year; inflation has been tamed; investment is looking up; trade has been liberalised; and public debt has been cut by half since 1999. In his budget last week Trevor Manuel, the finance minister, announced a surplus for the first time in history. Another is expected in the coming year. A whopping 2 trillion rand ($285 billion) will be spent in the next three years, mainly on social services and infrastructure, and a social security system will be set up, all being well, by 2010.

South Africa now has an efficient constitutional court, a free press and active watchdogs—from a vocal (if small) political opposition to a crowd of think-tanks, campaigning groups and civic organisations. Flushed with virtue, the country that used to be an international pariah has become a mediator of conflicts in such cockpits as Burundi and Congo. President Thabo Mbeki was a driving force behind the creation of the African Union and the New Partnership for Africa's Development, which (if only it were brave enough to challenge Robert Mugabe in Zimbabwe) is meant to foster an African renaissance.

The country's influence extends beyond politics. Large South African companies, once corralled by international sanctions, have turned into proper multinationals. South Africa, which has 6% of sub-Saharan Africa's people but accounts for more than a third of its GDP, has a diversified economy and first-world financial services. Nigeria's economy, the next-largest in sub-Saharan Africa, is three times

smaller.

The reaction to Mr Mbeki's state-of-the-nation address last month, however, was not as upbeat as all that. This is a young, vulnerable democracy, and democratic ways still need to grow much deeper roots. The next general election is in 2009, but much of the country's future will be decided this year: the ruling African National Congress (ANC) will thrash out policies in June and almost certainly choose its next leader in December.

A good economic performance has failed to make much difference to the lives of millions of South Africans. Although half a million jobs are being created every year, unemployment remains stubbornly high at 25%—or, on a broader definition, close to 40%. Almost half the population are poor; around a quarter get government handouts. The Congress of South African Trade Unions (Cosatu) and the Communist Party, the ANC's allies, argue that the government's economic policy has been far too business-friendly.

The government has also come under fire both at home and abroad for its catastrophic handling of HIV/AIDS. The virus now infects 5.5m people, affects many millions more and kills close to 1,000 people every day. Failure to see disaster coming in the mid-1990s was later compounded by Mr Mbeki's blinkered views of the disease—and he still cannot bring himself to say that HIV causes AIDS. The health minister, Manto Tshabalala-Msimang—a fan of beetroot, garlic and traditional medicine—was temporarily replaced this week as a strange lung infection confined her once again to hospital. She too has been attacked for giving muddled advice about anti-retroviral drugs.

Under much pressure, the government has now made anti-retrovirals available to around 250,000 people. Although campaigners argue that this roll-out is far too slow, two people—the dynamic deputy president, Phumzile Mlambo-Ngcuka, and the straight-talking deputy health minister, Nozizwe Madlala-Routledge, are breathing new life into the official response. Activists and the government talk to each other these days, though new AIDS infections show little sign of abating.

Crime also remains a serious worry. In Soweto recently Thato Radebe, a 14-year-old schoolgirl, was raped, stabbed and stoned to death near her home. Her body was found in the veld with condoms, bottles and sticks around it; the whole community was shocked. Ever more government money is being thrown at crimefighting, to little effect. Though official numbers, now almost a year old, show a slow improvement in most crime rates, violent crime remains among the worst in the world, with more than 50 people killed every day and a serious assault every two minutes. Armed robberies have spiked dramatically over the past year.

The government's generally respectable policies, backed by a plump budget, are often defeated by weaknesses in the civil service. It inherited a fragmented administration whose main purpose was to deliver superior public services to the white minority, while keeping other South Africans under the apartheid boot. The democratic government tried to create a unified, efficient bureaucracy that would reflect the new political dispensation. In the process, many experienced white civil servants left or were pushed out.

This has changed the face of the administration, but severely hurt its ability to deliver at every level. Ministries, hospitals and schools are struggling to hire enough skilled people; many prefer the better salaries and working conditions of the private sector, or are going abroad. Municipalities, half of which are in serious trouble, are finding it harder to deliver basic services, let alone to expand provision of water, sanitation and electricity.

AP

Shrewd, but blinkered, Mbeki

Angry demonstrations last year made it clear that the poor are frustrated. The left wants a change of economic direction and more government intervention, and to some extent this is occurring. A plan to accelerate economic growth and share wealth was announced last year. The government and various state-owned enterprises have embarked on a programme to spruce up infrastructure, not least in time for the football World Cup in 2010 for which South Africa, to its delight, is host nation. The final will be played in Soccer City on the outskirts of Soweto, where the country's biggest stadium is being rebuilt and roofed to take the crowds.

The real ticket out of poverty, however, is education. One of the worst legacies of apartheid has been inferior schooling for South Africa's black majority. Plenty of government money has been pumped in, but

with slim results. Although enrolment is up, the schools fall far short of what is needed. One international survey ranked South Africa last of 45 countries in science scores, behind Ghana and Botswana.

Power tends to corrupt

The government's frustration is evident in the way it handles criticism. Critics are often denounced as racists or “coconuts”—black on the outside but white on the inside. People who “whinge” about crime are told that they should leave the country; those who do leave are called traitors. Debate feels more stifled than a decade ago.

The increasing centralisation of power is also disturbing. The president—who leads both the country and the ANC—now chooses not only his own ministers, but also provincial premiers and mayors of large cities where the ANC has won a majority of the votes. That used to be the job of the local party. Parliament needs to put on some muscle to become a better check on the executive. As it is, state institutions risk becoming extensions of the ruling party. Political pressures on the South African Broadcasting Corporation are undermining its independence.

Fighting within the ANC may also be weakening institutions. The National Intelligence Agency has been racked by a scandal involving unauthorised surveillance and allegedly fake e-mails suggesting a political conspiracy to prevent Jacob Zuma, the former deputy president, from getting the top job. The agency's head has lost his job but is fighting back; the whole mess smells of political dirty tricks.

Reports of conflicts of interest or outright corruption surface regularly. This shows that the country's watchdogs are alive and barking, but also that public office is too often seen as a way to get rich. Some politicians and government officials move into business with worrying speed. Black economic empowerment (BEE), which, among other things, encourages companies to hive off a slice of equity to blacks, has been accused of mainly helping a lucky, well-connected few, rather than nurturing entrepreneurs and creating jobs. Revised rules, which should spread the benefits more broadly through procurement, employment and social programmes, are at least some improvement on how things have been done in the past.

Mr Mbeki deplores what he sees as the relentless pursuit of personal enrichment. The ANC is making new rules to clarify the fuzzy line between party and government jobs on the one hand and business interests on the other. The sacking in 2005 of Mr Zuma when his financial adviser, Schabir Shaik, was convicted of fraud and corruption was generally applauded. Yet many South Africans feel that the fight against wrongdoing is not even-handed.

The main opposition party, the Democratic Alliance (DA), has largely failed to capitalise on these shortcomings. It has built its base by appealing to the white and Coloured minorities. So far, only one-tenth of its electorate is black. Until it reaches black voters, who make up 80% of South Africa's 47m people, the DA—which is to choose a new leader this year—has no prospect of coming to power.

The main opposition comes from the left-wing ranks of the ruling alliance itself. (No doubt the ANC's leaders think with horror of Zimbabwe or Zambia, where the opposition to liberation movements ultimately emerged from trade-union ranks.) The Communist Party has been making noises about running its own election campaigns. The ANC's trade-union allies have criticised the government's handling of Zimbabwe, HIV/AIDS and BEE. Both complain that they have been sidelined by Mr Mbeki's centralising rule. But for all their posturing, and despite lively rumours, neither group is likely to part company with the ANC for some time yet.

Unless the lot of the poor improves faster, pressure from the left will become ever harder to resist. Calls for a more pro-poor, pro-labour stance strike a strong chord with the party's rank and file. The battle should come to a head in June, when the ANC debates a policy platform ahead of the party elections in December. Since the party dominates South African politics—with 70% of the vote at the last general election—its next boss is more or less guaranteed to become president in 2009.

The coming leader

Disagreements over economic policy and leadership style have now crystallised around the political succession—and Mr Zuma, who remains the ANC's number two. He was cleared of rape last year, and

charges of financial shenanigans were kicked out of court in September. Mr Zuma's most ardent supporters, mainly within the left-leaning ranks of the ruling alliance, maintain that these trials were political devices to prevent him from becoming South Africa's next president.

Mr Zuma's chances rest on three things: a court case, support within the ANC, and the alternatives. The National Prosecuting Authority has not ruled out reviving the corruption charges. This would kill his chances only if he is found guilty; otherwise, perceptions of victimisation would probably boost his popularity.

His standing within the party is hard to gauge. ANC leaders in KwaZulu Natal, his home province, have said he is their presidential candidate. So has the ANC Youth League. Elsewhere, it is a toss-up. Party branches—and, after them, the party's regional and provincial outfits—nominate candidates for the top ANC jobs, including the president, and also choose delegates to the party conference that elects them. As many of these branches are revived for the campaign, trench warfare is likely to erupt over the succession.

The support of the party bigwigs is also vital. Traditionally only one candidate is left by the time the presidential vote takes place at the party conference. Potential candidates are not even supposed to say they are up for the job. Recent allegations that Tokyo Sexwale, a prominent businessman and a former provincial premier, has been canvassing for support were slapped down by party leaders. Even Mr Zuma, known for his loud singing, has been rather quiet lately.

He is charismatic, charming, and can stir up a crowd—especially a Zulu crowd—like no one else. Yet many people, both inside and outside the ANC, are aghast at the thought that he might be president. The cloud of suspicion related to the fraud and corruption charges has not yet faded, and he has shown serious lapses of judgment (including believing that a quick shower could protect him from HIV infection). A pragmatist to the core—or perhaps shameless populist would be closer to it—Mr Zuma seems much cleverer at saying whatever people want to hear than at formulating a policy and sticking to it. This makes him a skilled negotiator and peacemaker, as he showed when he intervened in the early 1990s in KwaZulu Natal, then on the brink of civil war. But according to Raenette Taljaard of the Helen Suzman Foundation, a local think-tank, he would be “a malleable, pliable president”—and one who might be too inclined to endorse the interventionism the left is pleading for.

Other names are also mentioned. The party's secretary-general, Kgalema Motlanthe, is considered a potential compromise candidate, but his name has been linked—rightly or wrongly—to the trouble at the National Intelligence Agency. Cyril Ramaphosa, a former trade unionist turned businessman and a key negotiator in the democratic transition, could make a political comeback, but may not please the left. The deputy president, Ms Mlambo-Ngcuka, is mentioned; but she owes her political fortunes to Mr Mbeki, and probably does not have enough standing of her own within the party.

Lastly, not impossibly, the shrewd and technocratic Mr Mbeki might stay. The ANC leadership in the Eastern Cape has called for him to seek a third term as party leader. Mr Mbeki, who has to step down as president after two terms, may be tempted to remain in the party post, which has no time limit.

Nurturing the rainbow

Whoever he or she turns out to be, the next president will have to rebuild bridges not only within the party, but also within the country. The warm and generous feelings of Nelson Mandela's time have receded, and Mr Mbeki has failed to paint a vision to inspire South Africans of every creed and colour. Both the government and the opposition have played the race card when it suits them. Pieter Mulder, the leader of an opposition group called Freedom Front Plus, recently remarked: “We do not know each other and do not debate with each other.”

South Africa's democracy is young, and its institutions still need to be nurtured, protected and shaped. The space for debate needs to be broadened, and race relations handled with care. Racial fractures did not disappear with apartheid, and the followers of political parties can still largely be divided into black and white. Fewer Indians and Coloureds have been showing up to vote, indicating that many have not found a political home.

The astounding success of a recent song about Koos de la Rey, a famous Boer general during the war against the British, is raising many eyebrows. Some fear that the old-fashioned nationalism of the Afrikaners (whites of European descent) is raising its head again. But Tim du Plessis, the editor of an

Afrikaans newspaper, argues that Afrikaners are merely migrating to a new space, between dead-end radicalism and ANC co-option. He points to a young, post-apartheid generation of Afrikaners reclaiming and reinventing their identity, unburdened by their parents' guilt.

In his candid speech last month, Mr Mbeki appealed to South Africans to help eradicate “all that is ugly and repulsive in human society”. He regretted that South Africa's ability to unite in pursuit of a “commonly defined national agenda” was still in question. But solving the problems of crime, AIDS and unemployment requires just such unity, as well as a fresh approach, and the government needs to get better at bringing everyone on board. It is with this daunting task in mind that the ANC must choose its next president.

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About sponsorship

The presidential race

Hillary under pressure

Mar 1st 2007 | WASHINGTON, DC
From The Economist print edition

AP

As the battle moves to the South, the Democratic primary is turning into a real race

EARLIER THIS week Hillary Clinton changed her schedule to include a visit to a church in Selma, Alabama this weekend. There were plenty of reasons for the last-minute adjustment. Selma is marking the 42nd anniversary of an historic civil-rights march across the Edmund Pettus Bridge, a march that was broken up by club-wielding state troopers. Leading Democrats, including Harry Reid, the Senate majority leader, and Nancy Pelosi, the House speaker, will be attending the event too. Still, it is hard to believe that Mrs Clinton was not influenced by the fact that Barack Obama is scheduled to make a speech at a black church in Selma. On March 4th the two senators will now give simultaneous speeches in churches that are no more than 300 yards apart.

This set-piece battle for the black soul could hardly be for higher stakes. The black vote is vital in the Democratic primaries—blacks make up more than half the electorate in the key early primary state of South Carolina, and dominate among party workers there. A month ago it looked as if Mrs Clinton had the black vote sewn up, thanks largely to residual affection for her husband. A *Washington Post*-ABC News poll in January gave her a 60% to 20% lead over Mr Obama among blacks. Mr Obama has failed to marshal support from traditional civil-rights leaders such as Jesse Jackson: as the son of a Kenyan father and a white American mother, he had no experience of the ghetto. He has encountered persistent criticism that he is “not black enough”.

But a new poll from the same source presents a very different picture: Mr Obama is now leading Mrs Clinton among blacks by 44% to 33%. Fully 70% of blacks now have a favourable impression of Mr Obama. He is clearly succeeding in wooing this constituency—and Mrs Clinton is discovering that she cannot rely on her husband's memory to keep black America on her side.

As George Bush demonstrated in 2000, there are few more important advantages in the primary race than a sense of “inevitability”. If you are the inevitable candidate, operatives clamour to be on your team, fund-raisers stuff your coffers with gold and waverers swallow their doubts. Lose that aura, and it all goes into reverse.

The Clinton campaign worked hard to follow the Bush model. Hard-knuckled Clinton operatives are still trying to prevent people from wavering or hedging their bets by hinting that “You are either with us or against us.” But these threats are growing hollow. John McCain has already lost his sense of inevitability on the Republican side; now the same thing seems to be happening to Mrs Clinton.

Which is all the fault of one man: Mr Obama. He either trumps or neutralises Mrs Clinton's biggest selling-points. She is potentially America's first female president; he is potentially its first black president. She is a celebrity: he has star power. Mrs Clinton had hoped to set the pace of the campaign. But he has repeatedly run ahead of her—getting into the race before her, for example, and making her announcement, when it came, look like an exercise in catch-up.

Now Mr Obama is making inroads into a political base that the Clinton dynasty has spent more than a decade cultivating. And he poses a threat on other fronts: Mrs Clinton has always had problems with anti-war leftists, who are furious about her vote to authorise the Iraq war and disappointed that she has refused to renounce it. Mr Obama, by contrast, has an impeccable anti-war record.

The news of Mr Obama's strides among blacks comes a week after a successful fund-raiser in Hollywood. The event netted $1.3m and attracted the likes of Jennifer Aniston, Morgan Freeman and Ben Stiller. George Clooney grandly informed *Newsweek* that Mr Obama is “as good as Bobby late in his career and Jack from early on”; Halle Berry said she would pick up litter in the streets to clear his path. What was all the more galling to the Clinton camp was that the fund-raiser was arranged by a “Friend of Bill”, David Geffen, who raised some $18m for Mr Clinton in the 1990s.

Most worrying of all for the Clintonistas is the fact that Mr Obama's rising fortunes are encouraging the Democrats to ask some tough questions about Mrs Clinton's biography, questions that the Clinton camp had hoped to suppress by a combination of muscle and momentum. Mr Geffen opened this Pandora's box by moaning about the “Clinton royal family” and her polarising qualities—and since then everybody has been at it. Does America want to be ruled by alternating dynasties? Is Bill Clinton a scandal waiting to erupt? Does America want to relive the psychodrama of the 1990s? Can the Clintons be trusted? Is Mrs Clinton electable? This is arguably just the exercise in due diligence that the primaries are supposed to provide. But it is an exercise that the Clinton camp had wanted to avoid.

Mrs Clinton remains a formidable candidate—an experienced and intelligent politician, backed by a state-of-the-art political machine. Mr Obama is a neophyte who still has to face the “Where's the beef?” question that damaged Gary Hart.

Still Mrs Clinton's once-solid lead in the opinion polls is shrinking: the two *Washington Post* polls show her lead over Mr Obama halving from 24 points to 12 points in little more than a month. Her “unfavourable” ratings are worryingly high: the same poll gives her a favourability/unfavourability rating of 49/48 compared with 50/30 for Mr Obama. And some Clinton campaign people are beginning to fret that they may have backed the wrong candidate, and to talk of jumping ship. The days when Mrs Clinton could walk her way to the Democratic nomination have gone.

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Foreign policy

Turn and turn again

Mar 1st 2007 | WASHINGTON, DC
From The Economist print edition

George Bush now wants to talk to the axis of evil.

ON FEBRUARY 27th Condoleezza Rice, the secretary of state, announced that America will talk to Iran and Syria about Iraq. To judge by the reaction in Washington, DC, this was an about-face like Big Brother's conversion of Eurasia from foe to ally in Orwell's "1984". Last week Iran was still part of the "axis of evil" and Syria was nearly as bad. Now the administration thinks it can sit down with these energetic sponsors of terror and calmly discuss how to calm the mayhem in Iraq? And this only two weeks after America struck a deal with North Korea, the other surviving member of the axis of evil, offering it aid even before it shuts down its nuclear programme, with the promise of much more, not to mention diplomatic recognition, if it continues to oblige. Foreign-policy "realists" celebrated their triumph over those naively idealistic neocons: neoconservatives have denounced the North Korea deal with vigour, and think Iran should be intimidated, not courted.

Certainly, there has been a shift. Foreign policy has changed, and so have the players. Donald Rumsfeld, the defence secretary who thought Iraq could be democratised by force and on the cheap, has been shown the door. Dick Cheney, the hawkish vice-president, has seen his influence wane. Other leading hawks, such as John Bolton and Paul Wolfowitz, are gone. Ms Rice's more pragmatic star has risen, along with that of the new defence secretary, Robert Gates. But does this represent an ideological U-turn or merely a response to changing events?

One should not over-hype the change, says Anthony Cordesman of the Centre for Strategic and International Studies, a think-tank. It is not as if the administration never speaks with Iran and Syria. America has formal diplomatic ties with Syria, and its diplomats bump into their Iranian counterparts all the time at multilateral forums such as the UN. Besides, the administration still has no plans to sit down one-on-one with the Iranians or the Syrians: the talks will occur only in the context of a regional pow-wow of Iraq's neighbours, summoned by Iraq. And talking is very far from agreeing. The problem is not that either side fails to understand what the other wants. It is that they want incompatible things. Iran wants nuclear weapons and regional hegemony. American wants it to have neither.

Michael Rubin, an analyst at the American Enterprise Institute, a hawkish think-tank, thinks the shift is small in substance but symbolically important. He sees two dangers. First, Iranian diplomats might make a promise that another part of the Iranian regime might break, which would render further bilateral diplomacy impossible. Second, he thinks Iran is "dangerously overconfident". Leaders in Tehran, few of whom have a feel for American politics, might misread the current anti-war rhetoric in Congress as a sign that America is now too weak politically to frustrate Iran's regional ambitions. That could prompt them to

miscalculate and provoke a military clash. “The risk of a conflict with Iran has never been higher,” he says.

In recent weeks the administration has been saying harsh things about Iran. The evidence that the Iranians are arming and training Iraq's troublesome Shia militias is compelling, though it is unclear whether this has been ordered by Iran's supreme leader, Ayatollah Ali Khamenei, or not. Still, Mr Bush has sent an extra aircraft-carrier group to the Gulf and given American forces orders to capture or kill Iranian agents in Iraq.

Adding to the tension, on February 25th Seymour Hersh, a journalist at the *New Yorker*, published details of contingency plans for war with Iran. But Mr Cordesman says one should not read too much into that. America probably no longer has contingency plans for sinking Britain's Royal Navy, he says, but just about every other possibility is covered. Pentagon officials stoutly deny Mr Hersh's more scary allegations anyway.

Keeping everybody happy

Mr Bush's new foreign policy is probably best explained as a reaction to events. What he tried before in Iraq did not work, so he is trying something new. He also has to deal with a Democratic Congress that, if ignored, may tie his hands. Some Democrats want to cut off funds for the war. Others favour standing back and letting Mr Bush take all the blame. John Murtha, a close ally of Nancy Pelosi, the House speaker, foolishly revealed a plan gradually to place so many restrictions on how troops can be deployed that the war would become unwinnable. His party distanced itself from such tactics, which would incense patriotic voters, but has yet to agree on an alternative. Meanwhile, the (wafer-thin) Democratic majority in the Senate is still thinking about rescinding the authorisation for the Iraq war it voted on in 2002. Chatting with the Iranians might be intended as a painless way of mollifying Congress—but don't bet on it working.

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About sponsorship

Governors

The little leaders that could

Mar 1st 2007 | CHICAGO
From The Economist print edition

America's state governors are making things happen

ONCE a year, Washington, DC, receives a group of visitors who put the city's resident politicians to shame: the governors of the 50 states. This week, when the National Governors Association gathered inside the beltway for its winter meeting, innovation was the theme. The idea, as championed by the NGA's current chair, Janet Napolitano of Arizona, was to highlight the ways in which states are boosting the skills of their workers and promoting the use of new technologies in local economies. But the innovation theme is also fitting in a broader sense, since the states have long been seen as experimental laboratories for new policies.

The governors are still tinkering in all sorts of ways, even as many national debates remain stuck in partisan gridlock. Some of the best ideas for boosting job skills, for example, involve tailoring business-tax breaks more narrowly to fit the objective. Under Bill Owens (whose term as governor has recently ended), Colorado put in place a tax break that rewards only those firms that create jobs with above-average pay. The states also lead the way in reforming health coverage, energy policy and education, even though the last of these is the only area for which they clearly hold primary responsibility.

These state-level efforts help the national debate, by showing that a reformist approach can attract voters and by making politicians in Washington look bad. That does not mean, however, that the states can solve America's biggest problems without real reforms at the national level. Because of the political and fiscal constraints facing governors, many of their reforms are little more than awkward efforts to make the most of a flawed national policy; in some cases, they can even add up to a bad outcome for the country as a whole. Those drawbacks are especially true of the two areas where governors have lately received the most attention: energy and, to a lesser extent, health.

Efforts to improve energy independence are among the most popular steps a governor can take these days. Many states have already adopted measures to cut reliance on oil for cars, use alternative energy sources to generate electricity, and curb emissions of greenhouse gases.

Many governors are promoting alternative fuels for cars, not least because this is a boon to farmers. Lots of states, for example, now require increased use of corn-based ethanol, even though this is an inefficient way to power a car. Using regulatory mandates has also been a popular way, at the state level, to nudge electricity generators towards getting more of their power from alternative energy sources such as wind and solar. Minnesota and Iowa, which sit at the centre of America's wind belt, have been among the most aggressive at using such mandates.

These steps have clearly ratcheted up the pressure on George Bush and Congress, but they are hardly an ideal approach either to America's reliance on oil from vile regimes or to worries about global warming. The best way to deal with these is through some combination of targeted taxes and cap-and-trade schemes, which limit the use of offending energy sources while allowing their users to adjust as efficiently as possible. Arnold Schwarzenegger, the governor of California, has proposed a cap-and-trade approach to greenhouse-gas emissions involving other western states, and a similar scheme is being developed by a group of nine north-eastern states; with luck, this will eventually prod the federal government into action. But for the most part, governors are much more interested in plans that put money directly into corn- or wind-farmers' pockets.

In health care, most governors' reforms seem more likely to do good rather than harm. Mitt Romney—a Republican who recently ended a stint as Massachusetts's governor and now wants to be president—received mostly praise for his plan to make health insurance universal in his state. A few others are trying something similar, but they tend to be in states, such as Iowa, in which most people are already

covered, though California is a big exception.

Many governors are also looking for ways to integrate Medicaid into their states' private insurance systems. Florida has used a federal waiver to set up a voucher-like scheme to let the poor buy private insurance. South Carolina will soon do so, if it can get permission from the feds. John Thomasian, who heads a Centre for Best Practices at the NGA, says that 34 governors have joined a project to look for better ways to share health records electronically while protecting privacy. These experiments will no doubt play a role in the reforms Congress eventually adopts—if it ever gets round to it.

The trouble with American health care, however, is that many of the problems stem from gruesomely distorted incentives at the national level. These include tax breaks that favour employer-provided care (a bias Mr Bush wants to eliminate), skewed incentives in the Medicare system, and cost-shifting that results from so many uninsured Americans. Governors have shown that they can help some people in their states and get re-elected. But America will not get its health-care costs under control unless Congress deals with the roots of the problem.

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Native Americans

A good hand at last

Mar 1st 2007 | BOSTON
From The Economist print edition

The newest tribe

EVERY eight-year-old in America knows about the Mashpee Wampanoag Indians on Cape Cod, the Indian tribe who befriended the newly arrived Pilgrims in 1620 and who were part of the first Thanksgiving. But it has taken until February 15th this year for the Mashpee to be recognised as a sovereign Indian nation.

The tribe first filed notice that it was seeking formal federal recognition in 1975. It submitted its petition to the federal Bureau of Indian Affairs in 1990, but got nowhere; it re-filed in 1996. In 2001 the tribe sued to speed up the review. A Detroit casino developer helped finance the tribe's bid. “This all should have been done 15 years ago,” says Kevin Gover, a law professor at Arizona State University and a former administrator of Indian affairs under Bill Clinton.

The Mashpee will soon be eligible for federal funding for health and education programmes, housing projects, small-business loans and pursuit of land claims. The tribe can take control of its ancestral lands through a trust held by its government. This should come in very handy for its big, not to mention glitzy ambition, to open a Vegas-style casino. It owns 160 acres (65 hectares) on the Cape, but has promised not to build there. It is looking at property about 50 miles (80km) away from tribal lands, near the Rhode Island state line.

As a sovereign nation, the tribe will have the right to tax, form a government and enforce its own laws, but it cannot ignore state laws. Slot machines, the main revenue source for casinos, are illegal in Massachusetts. Opening a casino which contains them may take a while. A bill allowing installation of slot machines at racetracks was defeated last year. But Deval Patrick, the newly-elected governor, is reconsidering it.

Since 1988, when the Indian Gaming Regulatory Act was passed, hundreds of tribes have entered the gambling industry. Of the 563 tribes federally recognised, over 200 operate casinos. Massachusetts residents spent $890m in Connecticut casinos in 2005. Eliot Spitzer, New York's governor, made a deal with the St Regis Mohawks last week to open a $600m casino in the Catskills, a faded resort area; the deal would give the state up to 25% of annual revenues from 3,500 slot machines, bringing it an estimated $100m a year.

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About sponsorship

City-wide wireless internet

Wi-Fi for the masses

Mar 1st 2007 | SAN FRANCISCO
From The Economist print edition

America's cities are learning to love the idea of universal internet access

AP

Freeing the data

IN SAN FRANCISCO, says Ross Mirkarimi, one of 11 members of the city's elected Board of Supervisors and a co-founder of California's Green Party, “suspicion of corporate interests flows as thick as the fog.” So it has come naturally for the Board, the city's legislature, to force a delay on a plan, signed in January by the mayor, Gavin Newsom, and two technology companies, Earthlink and Google, to let the firms blanket the city with free or cheap wireless internet access by putting little “Wi-Fi” antennae on lamp-posts.

The supervisors, say the mayor's people, are just trying to kick the mayor while he's down; Mr Newsom, up for re-election in November, recently admitted to sleeping with the wife of his (former) campaign manager. But the bigger reason appears to be that fog-like suspicion. If “big business”—ie, Earthlink and Google—is so keen on that wireless network, “we should consider doing it ourselves,” says Jake McGoldrick, another supervisor. He wants to study other options, including a network financed, owned and run by the city.

Don Berryman, the boss of municipal networks at Earthlink, sees this as a painful epilogue to a headache that he dealt with two years ago in Philadelphia. At that time, Philadelphia was the first large American city to propose “bridging the digital divide” by offering wireless internet access to the whole city, including, at a subsidised rate, to its poor areas. Verizon, a telecoms giant that has—with Comcast, a cable-TV firm—a duopoly on the city's broadband service, cried socialist wolf and lobbied to block the city from, as it were, distorting private competition.

So Earthlink and Philadelphia changed the debate. Instead of the city using tax dollars to build a network, Earthlink put up its own capital. And instead of getting an exclusive franchise, Earthlink agreed to re-sell network capacity to other providers who ask. Even the right to use the lamp-posts is not exclusive, and others can mount their own routers there. Since the proposal was now about adding private competition, rather than state intervention, the right-wing think-tanks had to shut up. Comcast, whose home is Philadelphia, kept fighting a bit, but then gave up. The city, and the idea of privately-funded municipal internet, won.

Almost all large cities in America took note. Until Philadelphia, municipal Wi-Fi networks were an idea only for small and remote towns that the telecoms and cable firms neglected. Many of those used tax dollars to build their networks, and some, such as St Cloud in Florida, have been very successful. Others teamed up with companies such as MetroFi, based in Silicon Valley, which builds free (ie, advertising-supported) wireless networks in smallish cities that “don't have the political baggage of larger cities”, says Chuck Haas, MetroFi's boss.

But large cities also want networks. Philadelphia's will be complete this autumn, and Houston and Atlanta are hatching plans. So San Francisco, which abuts Silicon Valley and fancies itself as cutting-edge, is particularly embarrassed that entire neighbourhoods are, as Chris Vein, the city's technology boss, puts it, “black”, meaning that no private Wi-Fi “hotspots” are available and poor people lack affordable broadband. Just by talking about new competition “we have already brought down the prices” of Comcast and AT&T, the city's duopoly, he says. Since San Francisco has lots of tech-savvy commuters and visitors, it also decided to be the first large city to offer a free option for connecting, and so brought in Google, which will try to fund its network using advertising rather than relying on subscriptions as

Earthlink does.

The delay and possible derailment of the plan by the Board of Supervisors is therefore frustrating. “The key with these networks is to get them up as quickly as possible,” says Esme Vos, an industry expert and founder of Muniwireless.com. The benefits of universal wireless coverage only become obvious once people use it—to make, say, free calls from internet phones and other gadgets that have Wi-Fi radios. Earthlink's Mr Berryman, in particular, is at a loss. Earthlink will pay the city 5% of its revenues and $50 for every light pole it uses, he says. “How can you argue against this when there isn't anything the city is giving?”

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About sponsorship

Downtowns

Where the lights aren't bright

Mar 1st 2007 | LAS VEGAS AND SAN JOSE
From The Economist print edition

How two booming cities have tried, and failed, to revive their centres

YOU do not have to spend long in the company of a San Jose official before the old photographs come out. Chuck Reed, the mayor, has an aerial view of the city centre from the late 1970s on a wall in his office. Tom McEnery, who held the same post in the 1980s, has a bigger one showing several acres of empty lots. The point is to show how far the city has come in the past few decades. If downtown San Jose had really been transformed into the throbbing heart of Silicon Valley, though, it would not need old pictures to prove it.

Downtowns are an American invention, says Joel Kotkin, an expert on cities. London, Paris and Tokyo all lack a single centre where commerce, entertainment, shopping and political power are concentrated. Such cores did emerge in early 20th-century American cities thanks to steel-frame architecture, which made it possible to build high, and because they had central railway stations. Fifty years later, almost all were gutted by the internal-combustion engine, which enabled people and jobs to move to the suburbs. They have been trying to revive themselves ever since.

San Jose has attempted to create a commercial heart by selling city-owned land or even giving it away to developers. The city offers tax breaks and uses a portion of the property tax to pay for improvement projects. Since the late 1970s the redevelopment agency has shelled out $2 billion, almost two-thirds of it on downtown. It has built museums and theatres to lure people to the centre. Trams have been supplied to entice them out of their cars.

Such largesse has indisputably made the middle of San Jose more appealing than it used to be. By any measure other than an historical one, though, the campaign has been a failure. The office vacancy rate in downtown stands at 21%—higher than it was four years ago, during the dotcom slump, and almost twice as high as the Silicon Valley average. The theatres, which were supposed to lift downtown, now depend on the council to bail them out of trouble. In a city of 912,000 people, just 30,000 passengers ride trams each day. All this in a wealthy metropolis that has higher house prices than anywhere else in America, according to the National Association of Realtors.

Despite its anaemic condition, most visitors to San Jose at least know where downtown is. That is not the case in Las Vegas. The historical centre, with its string of small casinos and its neon cowboy, once seemed glitzy. It is now a shadow of the Las Vegas Strip, which has grown dementedly since the late 1980s, building ever larger, more exuberant hotels. Despite offering better odds than their competitors, the downtown casinos took in $630m last year, compared with $6.7 billion on the Strip. And they are the brightest spots in the area. Beside them lie cheap motels, shuttered shops and bail bondsmen.

Local boosters now hope that high-rise apartments will bring life and money downtown. Perhaps, but not soon. A wobbly property market has shaken out several projects. The scale of development at present—120 condominiums built, with another 2,748 under construction or taking reservations—is small stuff in a metropolitan area that added more than 70,000 residents a year in the 1990s, most of them in the suburbs.

The only reliable way to bring people downtown is to force them. Las Vegas has put federal, county and city courts a few blocks to the south of the original Glitter Gulch, together with a jail. As a result, local offices are filled with lawyers. San Jose's council has moved downtown into a glass tower designed by Richard Meier. The building is striking, especially as it sits in a fundamentally low-rise area. A city official who needs spare parts for his car need walk only one block.

One of San Jose's obvious problems is that it must compete against San Francisco, which lies 48 miles

(77km) to the north. Yet the strongest competition is local. Suburban shops exert such a strong allure that it is hard to persuade retailers to open downtown. Both Las Vegas and San Jose have tried to jump-start redevelopment by building shopping malls in the urban core; both attempts failed utterly.

Not so long ago, downtown shops could at least claim to offer an urban alternative to the strip malls and boxy stores dotted about the suburbs. No longer. Santana Row in San Jose is a shopping street with distinctive, French-accented architecture, art galleries, shops and pavement cafés, with some apartments mixed in. It is exactly the kind of urban environment that the downtown boosters say they want, but for two details. Santana Row is three miles from the city centre, and was built in 2002. This fake downtown, with ample parking and no homeless people, is doing so well that similar schemes are mooted elsewhere.

“San Jose needs to be more than just a nice, suburban community,” says Mr Reed, the mayor. But perhaps it does not. An unconvincing downtown has not held down home-prices in San Jose, just as it has not arrested Las Vegas's extraordinary growth. All it has done is give officials a sense of inferiority.

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Lexington

Trouble in the family

Mar 1st 2007
From The Economist print edition

Kevin Kallaugher

Is James Dobson's legendary power starting to wane?

JAMES DOBSON is the Godzilla of the religious right. Other leaders have blazed for a while and then guttered out—Jerry Falwell and Pat Robertson because they were incapable of buttoning their lips, Ralph Reed and Bill Bennett because, in different ways, they fell prey to the temptations of casinos. But until now Mr Dobson has gone from strength to strength.

Mr Dobson has long enjoyed unrivalled clout with Christian conservatives. Who else could have derailed a bankruptcy bill that was beloved by business (in 2002) or ejected Tom Daschle from his South Dakota Senate seat (in 2004)? The Dobson-inspired House Values Action Team includes some 70 Republican congressmen. Several leading Republicans, including one former senator, Jim Talent, have Mr Dobson to thank for their conversion to Christianity. Mr Talent, who was raised in a Jewish household, pulled into the side of the road and gave his life to Christ after listening to one of Mr Dobson's broadcasts.

Mr Dobson also has an unmatched power-base. Focus on the Family, which he founded in the late 1970s, employs 1,300 people; gets 10,000 e-mails, 50,000 phone calls and 173,000 letters a month, justifying its own zip code; maintains a mailing list of 6m names; and enjoys an annual budget of $150m. Mr Dobson has also spawned a Washington-based think-tank, the Family Research Council, and dozens of Family Policy Councils across the country. All of which adds up to what Dan Gilgoff calls a “Jesus Machine” in his excellent new book of the same name.

Mr Dobson remains as active as ever in politics. He has fulminated against Rudy Giuliani and John McCain. Another presidential candidate, Mitt Romney, recently travelled to Focus's headquarters in Colorado Springs to try to curry favour. Mike Huckabee has been a frequent guest on his radio programme. But there is mounting evidence that Mr Dobson's version of the Jesus machine may not be winning the culture wars after all.

The religious right is in a dismal state at the moment. In 2004 social conservatives marched in lockstep behind a triumphant Republican Party. But two years later they lost a succession of high-profile races and ballot initiatives. And today they are desperately casting about for a like-minded presidential candidate. Mr Giuliani is too liberal, Mr Romney is too much of a flip-flopper, Mr McCain is too independent-minded,

particularly on stem-cell research and a constitutional amendment to ban gay marriage. A recent meeting of the Council for National Policy, a secretive group of social conservatives, was reportedly a study in despair.

Mr Dobson is at the heart of his movement's difficulties, just as he used to epitomise its success. He owed much of his unique influence to the idea that he was a reluctant politician. He built his career offering advice on family problems (his radio show still gets over 6m listeners a week). He refused to run for political office—unlike Messrs Reed and Robertson—and even refused to endorse a presidential candidate until 2004. His insistence on saving America's problems one soul at a time had the paradoxical effect of giving his rare ventures into politics great force.

Twilight of the evangelical pope

But since stepping down as head of Focus on the Family in 2003, he has been spendthrift with the political capital he took so long accumulating. He stomped the country for social conservatives in 2004—and devoted a fearsome amount of effort to unseating Mr Daschle. He repeatedly threatened the Republican establishment with severe punishment if it failed to “deliver” for the people who put the party back in power in 2004. Why was George Bush spending so much time trying to reform Social Security, he thundered, when he should have been trying to repair the country's morals?

The problem is that Mr Dobson is not all that good at politics. He displays all the characteristic weaknesses of evangelical politicos—overreaching hopelessly and then blaming failure on want of political courage. He was the prime force behind both the fight to keep Terri Schiavo's feeding tube in place and the push for a gay-marriage ban. But a majority of evangelicals disapproved of the first and a large number of his fellow social conservatives warned, rightly, that the second was a waste of effort.

There have been other miscalculations. He wasted political capital supporting Harriet Miers's doomed nomination to the Supreme Court. He strongly opposed the 2006 Evangelical Climate Initiative. He accused SpongeBob SquarePants of participating in a “pro-homosexual video”. He argued that “The Da Vinci Code” “has all the evidence of something cooked up in the fires of hell” (wouldn't it have been better written if it had been?). He compared Bill Frist's call for increased federal funding for stem-cell research to Nazi experiments.

The 70-year-old Mr Dobson (who has already suffered a heart attack and a stroke) is increasingly looking like a relic of an *ancien régime* rather than a harbinger of a new order. The average age of people on Focus's mailing list is 52. Mr Dobson and his acolytes are rapidly being displaced by what Mr Gilgoff calls a New New Right—people who are concerned about international justice and climate change as well as abortion and gay marriage, and people who are willing to work with liberal pressure groups over issues such as Sudan and sex slavery.

All this suggests that the battle for the “values voters” will be more complicated than it was in 2004—and certainly will involve a lot more than kissing Mr Dobson's ring. In the Republican “evangelical primary” rising stars like Rick Warren, another reluctant politician, may count for as much as the old war horses. And Democrats such as Hillary Clinton and Barack Obama—who both like to stress their religious credentials—have a chance of picking up disillusioned evangelicals. The Jesus machine is changing fast.

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Latin America and the United States

Spring break

Mar 1st 2007 | BUENOS AIRES, MEXICO CITY AND SÃO PAULO
From The Economist print edition

Expectations are low as George Bush sets off to a region he has neglected throughout much of his presidency

Claudio Munoz

ON A hill at the edge of Mexico City's Chapultepec park, towering over the posh district of Polanco, is a castle. Long the official residence of Mexican presidents, it was made famous by six young soldiers called the *niños héroes* (boy heroes) who—according to legend—died defending it from invading American forces in 1847. The last one jumped over the parapets clutching the Mexican flag in an attempt to prevent its capture by the enemy.

Relations between the United States and Mexico have changed markedly since then. But it still rankles that the United States grabbed half of Mexico's territory in the mid-19th century Mexican-American war. Thereafter, overt *yanqui* meddling in the region was largely confined to Central America and the Caribbean, interspersed with periods of pan-American co-operation. But many Latin Americans have not forgotten America's backing for the military dictatorships in the 1970s and 1980s.

Latin American attitudes to their powerful neighbour are full of paradoxes. Although many aspire to migrate there in search of opportunity, anti-American attitudes have been hardening. In a recent poll for the BBC World Service, 64% of Argentines, 57% of Brazilians, 53% of Mexicans and 51% of Chileans said they had a “mainly negative” view of American influence. In the 1980s, civil wars in Guatemala, El Salvador and Nicaragua propelled the region to the forefront of the cold war. But more recently the Middle East has pushed Latin America aside in Washington's foreign-policy priorities. As George Bush sets out on a week-long tour of the region on March 8th, he is confronting an audience as bothered by America's recent lack of attention as by its earlier activism.

Relations with the five governments he is visiting—in Brazil, Uruguay, Colombia, Guatemala and Mexico—are good. Luiz Inácio Lula da Silva, Brazil's president, is expected to visit Mr Bush at Camp David in a few weeks. Álvaro Uribe, Colombia's centre-right president, is perhaps America's staunchest ally in the region. Felipe Calderón, Mexico's president, visited Washington just before taking office in December. But even in Colombia—by far the biggest recipient of American aid in the region, thanks to “Plan Colombia”, an anti-drugs campaign—only 39% of those polled by LatinoBarómetro in December (see article) had a positive image of the American president.

Mr Bush's low approval rating in Latin America has two main causes. The first is the war in Iraq. Big majorities, including 85% of Brazilians and 80% of Mexicans, disapprove of his handling of the conflict, according to the BBC poll. He has also lost ground among what could be considered Latin America's fourth-biggest nation—the 42m-strong Hispanic community in the United States. A poll in January by the Pew Hispanic Centre, a Washington-based group, found that 66% of American Hispanics favour bringing American troops home “as soon as possible”, up from 51% two years earlier.

The other main source of discontent is that, even though the cold war has ended, Mr Bush's government continues to act at times as though it has not. In Nicaragua's recent presidential elections, won by Daniel Ortega, the Sandinista leader who fought against American-backed rebels when president in the 1980s, American officials openly campaigned for right-wing candidates. Hugo Chávez, Venezuela's left-wing populist president, may be no better liked by Latin Americans than Mr Bush—both men got 39% “bad opinions” in the latest LatinoBarómetro. But allegations of American connivance in a 2002 coup attempt against Mr Chávez—strenuously denied in Washington—do little to dispel America's reputation for meddling.

However, when it comes to their own self-interest, Latin Americans have a more nuanced view of America. Brazil has a long agenda to discuss with Mr Bush, including its bid for a permanent seat on the UN Security Council and the limping Doha round of multilateral trade talks. Both countries now see themselves as leaders of a global effort to promote the production and consumption of ethanol (see article). In January the United States signed a Trade and Investment Framework Agreement with Uruguay, which could be a prelude to a full-fledged free-trade agreement. Lula countered this week by signing a series of agreements with Uruguay's president, Tabaré Vázquez, designed to keep Uruguay within Mercosur's fold.

In Uruguay Mr Bush has a mere 12% approval rating, according to CIFRA, a Montevideo consultancy. But 59% of Uruguayans support a free-trade accord with America, including a majority of the supporters of the Frente Amplio, the ruling left-wing coalition. However, America is unlikely to want to offend Brazil by pushing ahead with such a deal. Besides, with the Democrats now in control of Congress in Washington, it is unlikely to see the light of day.

In Colombia, where Mr Uribe's government has been beset by a series of scandals linking officials to right-wing paramilitary groups, Mr Bush's visit will help remind Colombians of America's support for their country. Mr Bush's next stop, in Guatemala, where just 30% of the people have a positive image of him, is largely to thank the government for joining America's “coalition of the willing” in Iraq.

At the end of his tour, in Mexico, where Mr Bush and Vicente Fox, Mr Calderón's predecessor, vowed not so long ago to be the best of friends, his task will be to set about repairing the damage inflicted on bilateral relations first by Mexico's failure to support America's invasion of Iraq in the UN Security Council in 2003, and now by failure to agree on an immigration deal. Talk of a “border fence”, even if one is unlikely ever to go up, has not helped the United States' cause in a country that is by far its biggest supplier of new immigrants.

Mr Bush will stay far from Mexico City and Chapultepec castle, visiting only the city of Mérida on the

Yucatán peninsula, close to where he spent last year's spring break at a summit meeting in Cancún with Mr Fox and the prime minister of Canada. Little came out of that meeting, and few expect any concrete results from this trip either. So far, enlightened self-interest has trumped personal dislike for Mr Bush in the region. But if his visit can diminish that dislike even a little bit by showing goodwill, it will be regarded as a success. The days of dramatic gestures by boy heroes are long over. Diplomacy will now have to do the job instead.

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Ethanol

Fuel for friendship

Mar 1st 2007
From The Economist print edition

America and its neighbours discover a common interest

AS A pilot and the owner of an air-taxi service in Brazil's grain belt, Joel Rosado spends a lot of time thinking about fuel. So when the price of oil began rising a few years back, he ordered a new cropduster designed to run on ethanol instead of petrol. He found that the fuel bill for the new plane was a third that of each of his other nine, and so has decided to convert those to run on ethanol too. Brazilian drivers learned a similar lesson long ago: 77% of new cars can run on ethanol, which accounts for half of all transport fuel consumed in the country. “At this rate,” says Antonio Galvão, another pilot, who owns four ethanol-fuelled planes, “the gasoline engine is heading for extinction.”

George Bush has also spent a lot of time thinking about fuel recently. Earlier this year he called for America to cut its projected petrol consumption by 20% over the next decade, largely by using more ethanol and other biofuels. Mr Bush implied that most of the 35 billion gallons (130 billion litres) required would be home-grown. At any rate, he has not tried to remove the 54-cent tariff America levies on most imported ethanol in deference to its powerful farming lobby. Nonetheless, on March 8th Mr Bush and Luiz Inácio Lula da Silva, Brazil's president, are expected to strike a deal intended to boost biofuels. “Ethanol diplomacy” will be a focus of Mr Bush's Latin American tour.

Firms around the world are trying to make biofuel out of everything from trees to cooking oil. To make ethanol from corn or wheat, as Americans and Europeans tend to do, distillers must first convert the starch in those crops into sugars. But Brazilian distillers dispense with this expensive step, as they use sugarcane as a feedstock. So Brazil can produce ethanol for 22 cents a litre, compared with 30 cents a litre for corn-based ethanol, according to Icone, a Brazilian think-tank. That makes it cheaper than petrol, and therefore lucrative for farmers without subsidies.

For the past three decades, sugarcane plantations have been spreading north and west across Brazil's hinterlands, replacing coffee, citrus and pasture. Investors are planning to spend some $12.2 billion on 77 new ethanol plants over the next five years, as well as $2.4 billion to expand existing ones. By 2012, a total of 412 distilleries will be churning out 9.5 billion gallons of ethanol. Ultimately, Brazil would like to see ethanol traded as freely and widely as oil. In that case, it could potentially boost exports from the current 3 billion litres to as much as 200 billion litres by 2025, according to a study commissioned by the Ministry of Science and Technology. That would be enough to replace one-tenth of the world's petrol consumption.

Brazil is not the only country in Latin America that sees great promise in ethanol. Colombia now has five distilleries amid the sugarcane fields of the Cauca Valley, which produce 360m litres a year. Two more are under construction elsewhere. These producers are guaranteed a market, since regulations oblige fuel merchants to mix ethanol into petrol. By 2009 the required blend will be 10% ethanol and will gradually rise to 25% thereafter. Costa Rica has a similar policy, and Panama is contemplating one.

Indeed, since sugarcane is grown throughout the region, most Latin American countries could benefit. A recent study from the Inter-American Development Bank argued that replacing 10% of Mexico's petrol consumption with locally refined ethanol would save $2 billion a year and create 400,000 jobs. Several Caribbean governments hope that the ethanol boom could help revive their ailing sugarcane farms.

The greatest lure would be access to the American market. Various Central American, Caribbean and Andean countries can already send ethanol to America tariff-free, thanks to concessionary trade agreements. Maple, an American energy investment group, plans to spend $120m on an ethanol plant in Peru to take advantage of such a waiver. A pipeline running out into the nearby Pacific Ocean will deliver the plant's output directly to tankers bound for America. Proponents of the project say it will create 3,200

jobs. If all goes well, exports could reach 120m litres a year by 2010, and perhaps as much as 400m in the more distant future.

The United States, for its part, has several reasons to encourage ethanol production in Latin America. For one thing, it will need seven times more of the stuff than it currently produces to meet Mr Bush's 35 billion-gallon target. There simply is not enough spare land in America to grow adequate feedstock for such an amount, unless scientists find a way to make ethanol cheaply from abundant materials such as wood or grass. Although Mr Bush's ultimate goal is energy independence, he would presumably prefer to be dependent on ethanol from friendly countries such as Brazil and Colombia than on oil from hostile places like Iran and Venezuela.

An ethanol boom in Latin America would also attract investment to rural areas and create lots of jobs. That might help to reduce the steady northward stream of illegal immigrants. It would certainly burnish America's image, and stem support for anti-American tub-thumpers such as Venezuela's Hugo Chávez. He has won friends throughout the region by selling oil cheaply. By sharing technology and promoting investment in ethanol, America would also be reducing Latin America's fuel bill. If it bought lots of ethanol from its neighbours, it would be providing them with a lucrative export of their own.

Mr Bush's brother, Jeb, likes the idea. In December, just before stepping down as governor of Florida, he helped to set up a group called the Interamerican Ethanol Commission to promote ethanol in the region. He had written earlier to the president urging him to devise “a comprehensive ethanol strategy for our country and our hemisphere”. The deal between Mr Bush and Lula is even more ambitious, covering the world. It might prompt people to think a little harder about ethanol.

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Canada

Accentuating the positive

Mar 1st 2007 | OTTAWA
From The Economist print edition

The government tries to bolster public support for the mission in Afghanistan

CANADIANS are nowadays queasy about having an army that actually fights. Most would prefer their soldiers to do pleasanter things, like doling out food, rebuilding shattered villages or donning blue helmets for traditional UN peacekeeping. That may be why, when asked about support for the NATO mission to Afghanistan, where Canadian troops have done more fighting than rebuilding since being sent to Kandahar province last year, almost half say they want the mission abandoned and the 2,500 troops home.

This is anathema to Stephen Harper, the Conservative prime minister who in his first year in office has beefed up the defence budget and extended the Afghan mission by two years to 2009. Echoing America's president, George Bush, Mr Harper has said repeatedly that Canada will not “cut and run” but stay in Afghanistan until the job is done.

But as the leader of a minority government, Mr Harper cannot afford to ignore public opinion, especially when the voices calling loudest for retreat come from the vote-rich province of Quebec. So when this week his government presented Parliament with an Afghan progress report, it concentrated on the C$1 billion ($860m)—since boosted by an extra C$200m—the government has pledged to spend on microfinance, education, rural infrastructure and other development projects in Afghanistan by 2011. Afghanistan is now the biggest recipient of Canadian foreign aid.

Though the report could hardly avoid all mention of combat in what has become Canada's largest military deployment since the Korean war in the 1950s, its language was mild. There was at any rate no mention of the “detestable murderers and scumbags” whom the bellicose chief of defence staff, General Rick Hillier, once said were Canada's target in Afghanistan. Nor did the report repeat a recent comment by Gordon O'Connor, the defence minister, that Canadian troops were in Afghanistan in order to exact “retribution” for the 2001 terrorist attack on New York, in which nearly 3,000 people died, including 25 Canadians. And though development spending was laid out in detail, no total was given for the cost of the military engagement, now entering its sixth year. According to a very conservative estimate by the government last October, this could exceed C$3 billion by 2009.

Focusing on the nation-building while glossing over the killing is probably the best way to extract maximum support from combat-shy Canadians. Mentioning the 37-country coalition in Afghanistan also helps, because it reminds the many Canadians who detest George Bush that they are not the only ones fighting alongside the Americans.

But other developments threaten to push opinion in the opposite direction. Reports disclosed via the freedom of information law by Amir Attaran, a law professor in Ottawa, and made public last month, suggest that Afghan prisoners have been beaten while in Canadian custody. This has stirred memories of the torture and murder of a Somali youth by Canadian troops in 1993. That led to the disbanding of an elite regiment. The alleged beatings in Afghanistan are now the subject of three separate official inquiries.

Also troubling is a case filed in the Federal Court last week by two human-rights groups alleging that Canadian troops are breaking both national and international law by handing prisoners over to the Afghan army, which has a record of torture. Unlike other NATO members, such as Britain and the Netherlands, Canada did not obtain the right to check on the welfare of transferred detainees. It simply gives their names to the International Red Cross. The independent Military Police Complaints Commission is to investigate the affair.

But it is the rising number of Canadian soldiers being killed in Afghanistan that is most likely to determine whether voters eventually choose to see the job through. Since the first troops arrived in 2002, 44 soldiers and a diplomat have lost their lives. The most recent deaths were recorded in November. But with analysts predicting a new offensive by Taliban insurgents when the snow melts this spring, the already wavering home front may be further tested.

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Beijing's Olympic frenzy

Inflated by the Olympic spirit

Mar 1st 2007 | BEIJING
From The Economist print edition

Imagine China

An Olympics-fuelled boom is not all good news—and is especially hard on those looking for somewhere to live in China's capital

THE transformation of China's capital over the past few years has been astonishing enough. This year the effect will be giddying. Due for completion are: a dozen Olympic sports centres; a new cross-city underground railway; a host of office towers; a massive airport terminal; and, after some delay and much criticism, a colossal French-designed egg-shaped theatre in the city centre. Amid an Olympics-fuelled frenzy, Beijing's economy is booming and its house prices soaring. Many fear their return to earth will be bumpy.

Olympic cities usually experience an economic surge before the games. And with under 18 months to go before the games open in Beijing, China's economy as a whole is growing nearly as fast as Beijing's: 10.7% last year compared with the capital's 12% (its eighth consecutive year in double digits). Central-government leaders worry that the pace could be reckless, but are loth to apply the brakes hard.

At its fortnight-long annual session beginning on March 5th, China's largely rubber-stamp parliament, the National People's Congress (NPC), will endorse the leadership's efforts to restrain investment and cool property markets. It will also, according to the Chinese press, approve a target for slower economic growth this year, of around 8%. But few expect much change. Last year's target, too, was 8%. Chinese leaders deliberately err on the low side to deter local governments from spending with even gayer abandon. Similarly, Beijing's target for GDP growth in 2007 is, like last year's, a modest 9%.

For Chinese leaders, however, Beijing's boom is also a worry. Lower-income residents complain with increasing bitterness about house prices. In January the property-price index in Beijing rose by 9.9% compared with the same month in 2006. This was the second-highest rate among 70 cities surveyed. And prices for many residential properties are growing far faster than these figures suggest.

At the NPC session and a five-yearly Communist Party congress due in the autumn, leaders will be trying to stress how much in sympathy they are with the suffering of ordinary citizens. For the past two years, the central government has introduced a series of measures aimed at cooling property markets in Beijing and elsewhere. These have included new taxes on property deals and higher mortgage downpayments. Last month new restrictions were imposed on property purchases by foreigners. In Shanghai, these moves have achieved some success (diverting speculative money to the bubbling stockmarket), but not in

Beijing. Last year property development still accounted for more than half of all investment in the capital (see chart).

Speculators are betting that property prices will benefit from the tightness of land supply and the continued slow appreciation of China's currency, the yuan, which should bolster the value of yuan-denominated assets. Moreover, in order to keep the city clear of unsightly cranes and dust-billowing building sites during the games, Beijing has been discouraging new construction projects. This has reduced the expected supply of properties and helped to drive up prices. Last year the total floor space of new housing projects was nearly 6% less than in 2005. For poorer residents the outlook was particularly grim. The floor area of newly launched low-cost housing projects was down by nearly 57%.

According to press reports this week, the central government recently called a special meeting to discuss ways to tame Beijing's property market. Among its suggestions was an increase in the housing supply. In January Beijing's mayor, Wang Qishan, announced plans to boost the construction of affordable housing. It is not clear, however, how soon this will come on the market or whether there will be enough to affect prices. To city governments, high prices mean greater tax revenue, a prize not readily forsaken.

Officials estimate that the Olympics have been contributing more than two percentage points to Beijing's annual growth since 2003. After the games, they insist, the city's new infrastructure and additional glamour (including the egg-shaped theatre, which hopes to attract international stars) will help keep the economy rolling. The flow of investment will be sustained, they say, by further infrastructure development, and by the pent-up demand for property, which will be supported by a continuing large influx of migrants from the countryside.

But some observers are worried. In December's edition of *China National Conditions and Strength*, a monthly magazine, two Beijing academics, Liu Qiyun and Wang Junping, said the end of the Olympics would coincide with a cyclical downturn in China's economy, exacerbating the risk of a post-Olympics slump in the capital. Beijing's Olympics-related spending of around $35 billion, they calculated, would make up more than 43% of the total for all the games, including Beijing's, since Montreal's in 1976. This could make the post-Olympics investment downturn all the more pronounced—especially if the speculators are busy bailing out.

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Timor-Leste

Mutinous crew

Mar 1st 2007 | DILI
From The Economist print edition

A looming election rattles nerves

CONFIRMING a long-running rumour, José Ramos Horta, Timor-Leste's prime minister, said on February 25th that he will stand in April's presidential elections. Mr Ramos Horta, who spent 25 years in exile, during which he won the Nobel peace prize, kicked off his campaign posing as a “son of the soil”, in the village of Laga in the east of the country, where he spent his childhood.

His candidacy is backed by members of Timor-Leste's powerful Catholic church and a few political parties. But perhaps his most important backer is the still-popular Xanana Gusmão, the current president and former leader of the resistance to Indonesia's 24-year occupation of what used to be East Timor, which ended in chaos in 1999. But Mr Ramos Horta's campaign will be scarred by his failure to fulfil the promise he made on taking office last year to sort out a mess in the armed forces. He came to power after an army mutiny had toppled the government of Mari Alkatiri, of the Fretilin party, and led the country to the brink of civil war.

Reuters

Ramos Horta: an infant campaign

Nine candidates have declared themselves for the presidential elections on April 9th, to be followed by the first parliamentary elections. Mr Gusmão is expected to launch a new party, challenging the powerful Fretilin, and has hinted that he himself aspires to Mr Ramos Horta's post. Such a job swap would allow a double-act that helped secure Timor-Leste's independence to shape its future.

But it will not be a smooth transition. The leader of last year's mutiny, Major Alfredo Reinado, escaped from jail last August along with 50 other prisoners. No attempt was made to arrest him again, and on February 26th he and his followers seized 25 high-calibre weapons from a police post on the border with Indonesian West Timor. Far from resisting, the post's commander joined him. The incident led Mr Ramos Horta to ask Indonesia to close its border to stop the mutineers crossing. He also asked the Australian army, which leads a peacekeeping mission, to hunt down the renegades, at present holed up in the mountain district of Same. Major Reinado enjoys popular support among people in the west of the country, as a defender of their rights, which they feel are overlooked by eastern leaders.

The run-up to the elections has already seen violence. Late last month, peacekeepers killed two men during protests in a camp for displaced people. Now the well-armed Major Reinado is boasting that he will not be captured alive.

If he wins the presidency Mr Ramos Horta will become the army's chief and so in theory better able to heal its divisions. But the split in the army mirrors an ethnic and regional distrust that has long run through Timorese society. It is one reason why Timor-Leste, hailed at independence in 2002 as a success for UN midwifery, has since unravelled into near anarchy. The popularity of the Horta-Gusmão team may offer the best hope of stability. But the immediate danger is that the election campaign will bring more violence.

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America and Pakistan

Between Cheney and a hard place

Mar 1st 2007 | LAHORE
From The Economist print edition

America wants its counter-terrorism money's-worth from Pakistan

LONG accustomed to being pilloried at home as an American stooge, Pakistan's president, General Pervez Musharraf, is also getting used to American criticism that he is not stooge-like enough. This week Dick Cheney, the vice-president, popped in unannounced. Like other heavyweights before him, he pressed General Musharraf to “do more” to combat the Taliban's expected spring offensive against NATO in Afghanistan.

Reuters

Shaken not stirred

Congress is threatening to link further American financial and military assistance to Pakistan to a certification by George Bush that General Musharraf is actively battling the Taliban and al-Qaeda, both of which are said to be regrouping in Pakistan's tribal borderlands. Pakistan has received nearly $10 billion since pledging support to the “war against terror” in September 2001 and is due to receive nearly $1 billion in American assistance this year alone.

Afghanistan was the next stop on Mr Cheney's tour. Underlining the scale of the difficulties there, he was greeted by a suicide-bomber, who on February 27th attacked the American air base where he was staying, in Bagram near Kabul. Analysts said the audacious attack, in which the bomber and 11 others were killed, proved that the Taliban or al-Qaeda had infiltrated Afghan intelligence agencies, boding ill for NATO forces in the coming months.

Pakistan's foreign ministry responded angrily to speculation that Mr Cheney had admonished General Musharraf for his failure to crack down on Islamist extremists, declaring that Pakistan had done more than its share of the job and would “not take dictation from anyone”. General Musharraf has criticised the Afghan president, Hamid Karzai, for blaming Pakistan for his own government's failings. Before recent American and British announcements of fresh troops for Afghanistan, he mocked the West's failure to send sufficient reinforcements, or to take casualties there. He has pointed to Pakistan's loss of over 500 soldiers fighting the Taliban and al-Qaeda in its tribal areas. General Musharraf himself has escaped assassination attempts, blamed on Islamist extremists.

In America itself a White House spokesman refused to be drawn into rebuking General Musharraf, echoing an earlier American position that if there were any doubt about Pakistan's position it related more to its capacity than to its commitment. Nonetheless, American pressure on Pakistan is bound to rise if American casualties climb during the expected Taliban offensive.

How bad could relations get? If Pakistan's army balks at taking a tough stand against the Taliban, the

Americans may take matters into their own hands and extend their strikes against militant camps across the border into Pakistan's tribal belt. That, in turn, would be sure to provoke a popular backlash against General Musharraf for not standing up to the superpower and protecting Pakistan's sovereignty. In an election year, this is not a prospect he will relish.

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Thailand

An angry exit

Mar 1st 2007 | BANGKOK
From The Economist print edition

A top minister quits, widening cracks in the military government

SINCE December's bungled currency controls and January's muddle-headed changes to the law on foreign business ownership, it has seemed only a matter of time before Pridiyathorn Devakula, Thailand's irascible finance minister and deputy prime minister, either resigned or was sacked. On February 28th he quit, with guns blazing—attacking cabinet colleagues and opening further cracks in the military government that has run the country since a coup last September.

Mr Pridiyathorn, a minor member of Thailand's royal family, won a reputation for competence and independence as central bank chief under Thaksin Shinawatra, the deposed prime minister. So, for the generals behind the coup, he was an obvious choice to steer the economy. But his reputation, like that of the junta, was left tattered by the fiascos over currency controls and foreign business-ownership. These ill-thought-out measures were rushed in without consultation and then, just as hastily, partly reversed as investors took fright.

Two final reverses seem to have made Mr Pridiyathorn quit. One was a current-affairs programme on state television featuring Sondhi Limthongkul, a media magnate who led big protests against Mr Thaksin last year and who had recently turned his fire on Mr Pridiyathorn. The other was an attempt by General Surayud Chulanont, the prime minister, to co-opt Somkid Jatusripitak, one of the main architects of populist, free-market “Thaksinomics”, into the military government.

Mr Somkid was an odd choice for the job to which he was appointed on February 15th, ostensibly to explain the generals' decision to ditch Thaksinomics in favour of the rather vague “sufficiency economy” philosophy of King Bhumibol. Suspicions that Mr Somkid was being lined up as Mr Pridiyathorn's replacement were strengthened when it turned out that the finance minister was unaware of his appointment until reporters gleefully informed him.

A furious reaction from anti-Thaksin groups and the Thai press led Mr Somkid to quit after only six days. Mr Pridiyathorn's less graceful departure follows splits between General Surayud and the army chief and junta leader, General Sonthi Boonyaratglin, over the handling of the insurgency in the Muslim-majority south. General Surayud has also distanced himself from General Sonthi's comments that Thailand should take back the satellite business that Mr Thaksin's family sold to Singapore last year, which the army chief claims is being used for spying.

Investigations by the military government into Mr Thaksin's alleged corruption and abuse of power are, finally, yielding charges. His Thai Rak Thai (TRT) party faces possible dissolution in a trial over electoral shenanigans. Several big factions, including Mr Somkid's, have broken away. But TRT is not giving up yet. Its acting leader, Chaturon Chaisang, has been touring its strongholds in north-eastern Thailand. A new satellite-television channel, run by former Thaksin aides, was due to open on March 1st, but was blocked by the government.

This puts the junta in a quandary. If Mr Thaksin's friends are allowed to conduct a propaganda campaign against the increasingly unpopular military government, they could do well in the elections due later this year. But a crackdown might make them even more popular.

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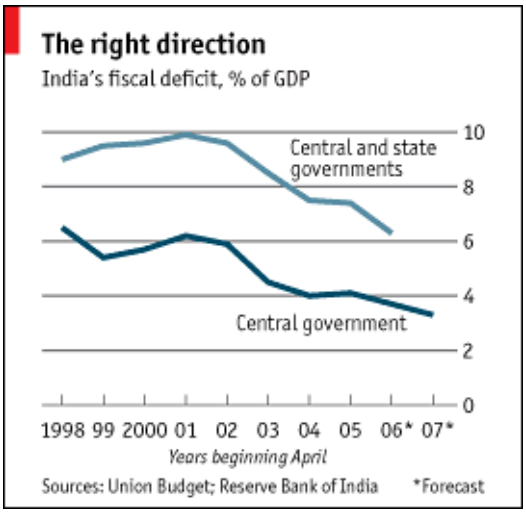
India's budget

One eye on the ballot box

Mar 1st 2007 | DELHI
From The Economist print edition

A budget for prices, farmers and votes. Shame about reform



WHEN Palaniappan Chidambaram, India's finance minister, started preparing his annual budget speech a few weeks ago, his officials were in buoyant mood and many businessmen positively euphoric. Annual economic growth of around 9% was spreading confidence, and concerns in some quarters that the economy was overheating were easily brushed aside. But by the time he delivered his speech on February 28th, the mood had changed. Inflation, approaching an annual rate of 7%, had reached a politically dangerous level. Price rises were partly blamed for electoral setbacks for his Congress party, which leads the national coalition government, and lost power a day earlier in two state elections.

Responding to the domestic pressures, Mr Chidambaram produced a budget whose central theme was curbing price rises. It also gave a much-needed boost to spending on agriculture, education and health care. The stockmarket's first reaction was gloomy, made worse by plummeting markets around the world, and businessmen found little to cheer about. But, while defending the pursuit of growth, Mr Chidambaram was aiming at different targets—for economic and social as well as political reasons. He increased funds for education by 34%, while money for health and family welfare went up by 22%. By comparison, spending on defence will go up just 7.8%.

He devoted a big chunk—some 15 minutes—of his speech to agriculture, which is growing by only 2.7% a year, compared with a government target of 4%. That is a disappointment at a time when, according to the government's annual Economic Survey, published on February 27th, manufacturing and services are growing by over 11%, and merchandise exports by 36%.

Other improved numbers include a savings rate of 32% of GDP and a combined central and state governments' fiscal deficit of 6.4% (see chart above)—still whopping, but in line with reform targets. Enjoying the surge in revenues brought by rapid growth, Mr Chidambaram said that agriculture "must hold the first charge on our resources". He announced plans to boost credit to farmers, as well, disappointingly, as to increase fertiliser and water subsidies, which tend to benefit the better-off, and help cripple the budget in leaner times. The Confederation of Indian Industry, a business lobby group, said more should have been done to increase private-sector investment. But Mr Chidambaram said later that agriculture had to be tackled through the millions of small farmers with less than a hectare of land rather than corporate investment. The hope is that such measures to boost agricultural supply will curb prices. He also announced duty reductions on a wide range of items.

Congress's election defeats, in Punjab and Uttarakhand, were worse than had been expected. The results have heightened the party's fears that it will do dismally in assembly polls next month in Uttar Pradesh, India's most populous state, once a Congress stronghold. Its strategists fear it will even lose assembly seats on its ruling dynasty's home turf, the part of the state where its leader, Sonia Gandhi, and her son Rahul are members of Parliament. With a general election not due until 2009, the results are unlikely to harm the stability of the national government. But they may blunt its appetite for reforms.

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India's wild north-east

The mayhem in Manipur

Mar 1st 2007 | BISHNUPUR
From The Economist print edition

Violence, extortion and a yearning for independence

RATTLING around the hairpins, the six-lorry army convoy had almost descended to the safety of Bishnupur, a town in Manipur's main valley, on February 24th, when the insurgents attacked. A thunderous volley of grenades and automatic gunfire sent the lead truck skidding into the forested verge. Sixteen of its uniformed passengers were killed. The attack sullied an election in Manipur. Voting had ended the previous day, and returned the Congress party, which leads coalition governments in Delhi and in Imphal, the state capital.

The attack was a blow to India's efforts to tame the wildest of its seven remote and insurgency-riven north-eastern states. Manipur, a green and hilly region nestling along the border with Myanmar, has multiple militant groups—23 at the latest count, fighting a 26-year insurgency. The biggest mostly belong to the Meitei majority, which resides in Imphal and the valleys. With an estimated 5,000 fighters, they want independence for Manipur, which was an independent Meitei kingdom for centuries before India absorbed it in 1949.

Other bands represent Manipur's 30-odd hill-tribes, including several living also in neighbouring states and countries. Their demands are various and shifting. The main faction of one, the National Socialist Council of Nagaland (itself split), has observed a ceasefire with the government since 1997, but is a prime suspect in the latest ambush.

The other hill-based groups agreed on a ceasefire with the security forces in 2004, and now fight alongside them against the Meitei outfits. With 50,000 troops in Manipur, the government says it has retaken much territory from these militants. And it has got slightly better at killing them, as opposed to unarmed civilians: of 290 insurgency-related deaths last year, including militants, security forces and civilians, half were militants. India has also encouraged Myanmar to sweep its western border region, where the militants hide, and has armed it for the task.

For decades India neglected the north-east, partly, allege locals, out of a racist disdain for their Mongoloid ancestry. Things have got better. Last year Delhi allotted Manipur a development budget of 11,600m rupees ($260m), a big sum for a state of 2.5m people. Its two national highways are being widened.

Construction of a railway from Assam through Imphal to the Myanmar border began last year.

The main impulse behind such schemes is the government's wish to increase trade with Myanmar. This would be an economic boost for Manipur. Campaigning in the state, India's prime minister, Manmohan Singh, envisaged it as a “mini Switzerland”, enriched by orchards of lemons and pears and hordes of tourists. The state governor, Shivinder Singh Sidhu, speaks shiningly of its “tremendous human capital”. Manipuris are, at the very least, good sportspeople: at India's national games in Assam last month, Manipur won 51 gold medals, more than any other state.

But nothing will unfetter Manipur's potential so long as the conflict continues. Its central grievance, the desire of many Manipuris to be free of corrupt, bullying India, has hardened, while other hostilities have fermented. Long-repressed caste rivalries, for example, between Meitei Brahmins and “untouchable” highlanders, have resurfaced. This is one reason for the multiplicity of militant groups. Another is India's divide-and-rule tactics.

The conflict has created a nightmare of extortion. Kelvin Hatlang, spokesman for one hill-based group, the Zomi Revolutionary Organisation, says that to maintain an army of 500 militants it taxes working Manipuri Zomis, a group split between India, Myanmar and Bangladesh, 4% of their salaries. If they refuse to pay? “We may insist, we may use violence, to be honest, or, very occasionally, some kidnapping.”

The militants also skim money off government contracts, especially road-building. To enforce their demands, they call strikes and impose blockades. The two highways were closed 40% of last year. From April to July, 82 out of 122 days saw general strikes. Manipuri politicians survive, and thrive, through corrupt ties to militants, who have the power to deliver voters. This helps explain why one day of the recent election saw a 90% turnout in a rainstorm. Asked whether his group's chosen candidate always wins, Mr Hatlang says: “Roughly, yes.”

India's government has said it is willing to negotiate with these hoodlums, but probably is not. It considers them too many, chaotic and criminal. It is also wary of giving encouragement to other militants, especially those waging a much bigger Maoist insurgency in central and eastern India. But so long as Manipur's political concerns, tarnished as they are, are not heard, the insurgency will probably continue. So development funds will be looted. And sometimes a lorryload of people may be slaughtered.

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Iraq

Is the surge beginning to work?

Mar 1st 2007 | BAGHDAD
From The Economist print edition

Assessing a promised Iraqi-American crackdown in the capital

Reuters

Get article background

IT IS very early days, but American officials in Baghdad say that the first signs of a joint American-Iraqi effort to stem the sectarian mayhem in the Iraqi capital are hopeful. Only one of five planned extra American brigades has yet been deployed. It will be several months before the full reinforcement needed for President Bush's vaunted “surge” is complete. But the Americans claim to see an improvement on the streets already.

The arrival of a new American commander in Baghdad, General David Petraeus, is said to have “re-energised” the Americans' headquarters almost overnight. The appointment of a little-known but energetic Iraqi general, Aboud Qanbar, to oversee the operation in Baghdad, a compromise candidate between the first choices of the Iraqi government and the Americans, has been a pleasant surprise, according to those who have met him. More important, Iraq's government has kept its promise to send in ten extra police and army brigades.

American forces have moved out of their well-defended bases into local outposts run jointly with the Iraqi army and police. The second-ranking American general in Iraq, Ray Odierno, says that in the past three weeks the number of corpses discovered has dropped dramatically. Based on police reports, the Associated Press counted 164 bodies found in the capital in the 13 days after the campaign's official start on February 14th, compared with 390 in the same period the month before.

Anbar province, the Sunni insurgents' heartland, may also be changing a tad for the better, as some Iraqi factions and tribal groups are said to be turning against al-Qaeda-linked insurgent cells and seeking to accommodate the Iraqi government.

To predict success would be extremely rash, however. The bloodshed still continues apace. A suicide bomber, presumably a Sunni, killed at least 40 people at Baghdad's Mustansiriya University, a stronghold of Shia factions, on February 25th. Iraqis say that insurgent snipers are still active, often firing from mosques before disappearing into back alleys. The newly beefed-up troop presence may reduce some forms of violence, such as multi-car Shia raids on Sunni districts, but is less likely to deter Sunni suicide bombers.

The fiery Shia cleric, Muqtada al-Sadr, who had previously backed the crackdown and had told his

followers to avoid confronting the Americans, has since denounced any security plan enforced by an “occupier”. And one of Iraq's two vice-presidents, Tariq al-Hashemi, a Sunni, says the crackdown focuses too hard on Sunni areas. He also criticised the government for advertising the plan, thus giving gunmen and bombers a chance to escape. Many Shia militia leaders are said to have left Baghdad, but they are expected back once the crackdown is over.

American officers say they get a lot of support and tip-offs from Sunnis in districts that lie alongside Shia ones. But they get much less co-operation in Shia zones where local armed groups are on the offensive, or in areas where Sunni fighters are more secure and want to be left in peace.

Perhaps the biggest snag is that many Baghdadis, on both sides of the sectarian divide, have come to think that their own group is the main victim of the violence and that armed militias are their salvation. It will be hard to persuade them to put their faith instead in Iraqi government forces, let alone American ones.

Jack Keane, the retired American general who helped persuade President Bush to try the surge, says it must be sustained for 18 months to two years to change the minds of ordinary Iraqis and allow the government to find a more solid political settlement. But with American presidential elections coming up next year, there is growing pressure to start bringing troops home this summer. Even if the surge works militarily, it may be too late politically—in Washington, if not in Baghdad.

Much will depend on the attitude of Iraq's neighbours. Iraqis are fond of saying they are not blessed by them. Iran gives its backing to Shia militias and Syria to the Sunni insurgency. The Sunni Arab states look askance at the new power of Iraq's Shia majority. Turkey, as self-proclaimed protector of the country's Turkoman minority, has talked of intervening in the north, especially when Iraq's Kurds sound bent on independence. Iraq's new leaders and their American mentors have often considered getting the regional governments to sit round a table to discuss ways of bringing peace.

Now it may actually happen (see article). This week's news of a possible regional peace conference has raised hopes that a new political mood could reinforce the tentative improvement in security. Iraq's foreign minister hopes that all Iraq's neighbours—Iran, Jordan, Kuwait, Saudi Arabia, Syria and Turkey, plus others in the 22-country Arab League and the UN Security Council's five permanent members—will send representatives to what he calls an “ice-breaking” session before gathering grander figures at a bigger conference, perhaps next month. Condoleezza Rice, America's secretary of state, has told Congress that America intends to take part too, despite the presence of Iran and Syria.

In any event, Iraqis sense a possible change of tactics, if not of heart, in Washington. Last year the Iraq Study Group, co-chaired by Lee Hamilton, a former congressman, and James Baker, a former secretary of state, suggested that America should talk to Iran and Syria over Iraq, yet in the past few months such an idea had seemed even less plausible. Mr Bush blamed them ever more loudly for Iraq's troubles. It is just possible that his change of tack, plus a successful surge, will start to tug Iraq in a better direction.

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Iraq's oil

That long-awaited share-out

Mar 1st 2007 | BAGHDAD
From The Economist print edition

A deal has been done, but there are still some worrying ambiguities

Get article background

A NEW oil law, apparently agreed upon at last by Iraq's politicians, should prompt a gush of much-needed foreign investment to reach the country with the world's second-biggest petroleum reserves. The law's passage was delayed for over half a year by a row between Iraq's federal government in Baghdad and the Kurdistan Regional Government, which runs much of the north-east, including some of Iraq's richest oilfields. Yet the law is still not quite complete.

For instance, regulations for the distribution of revenues must still be drafted. Then the entire package has to go to parliament. Nonetheless, for all Iraq's main factions to have endorsed a detailed document governing an industry that produces oil worth $70m a day is a big step forward. “This is the first time since 2003 that all major Iraqi communities have come together on a defining piece of legislation,” says America's ambassador, Zalmay Khalilzad.

AP

So who gets the cash?

The government's main factions all agree that they need such a law to get the wells pumping again. Poor management and 12 years of UN economic sanctions had left the industry decrepit, even before the American invasion. Since then it has been hit by sabotage, corruption and administrative chaos. At the last count, in December, Iraq was producing only 2.1m barrels a day; the pre-war peak was 2.5m.

But political agreements in Iraq tend to contain a lot of vague language that opens the door to future disputes. The delay in passing the oil law is largely caused by the new constitution of 2005, because it fudged the division of authority between the federal government and regional governments, crucially that of the Kurds.

The constitution gives the federal government control over fields already in production, and says that all powers not given to the federal government should go to the regions. But it does not specify who should control the exploration and development of new oilfields. Officials of the oil ministry in Baghdad say it is they who should handle all exploration. The Kurds interpret the constitution differently. They are willing to concede the management of new fields, but claim the right to negotiate contracts of their own with firms willing to exploit new fields in their territory.

In theory, that should not affect the division of earnings. Everyone seems to agree that the central government should run the existing fields (including those around the disputed city of Kirkuk, now controlled by the Kurds) and distribute the revenue evenly across Iraq. The Kurds accept that oil from fields in their area will flow into federally-run pipelines and will be sold by federal marketing bodies, with the ensuing revenue shared by all Iraqis.

But the Kurds insist that the central government should not be able to veto contracts. One reason they give is that Baghdad's ministries are so lethargic that plans to develop new fields would take too long to bear fruit. They complain that the central government already owes them several hundred million dollars of revenue. What they almost certainly think is that a locally-run oil industry would be vital if the Kurds ever won full independence.

The oil-law draft is not yet public, but the two sides appear to have compromised by letting an international panel of experts look at contracts and reject any that do not meet certain standards. In exchange, say the Kurds, they will be guaranteed a share of pooled revenue proportionate to their population. Both sides have grumbled about the compromise.

But at least the politicians seem to have sorted out some bits of the law that had stirred much debate abroad: the drawing up and regulation of the production-sharing agreements that international exploration and production firms love. Foreign drillers will, in certain fields, be able to keep a share of the oil they find, and not just be paid for their services. Some say this is fairly rare in countries with oilfields as big as Iraq's, and have accused Iraq's government of “giving away the store”.

Iraqi officials are at pains to say that the big fields will stay fully state-owned; production-sharing agreements will be dangled only as incentives to explore areas where oil is hard to find or exploit. The oil minister, Hussein al-Shahristani, says the law must be as flexible as possible to let the ministry do what is best for the country as a whole. Though Iraqi oil has been extracted for more than 70 years, parts of the country are still remarkably unexplored.

In some areas oil may exist but will be hard to extract: for instance in the western desert province of Anbar, in the oil-poor Sunni heartland. If it could be found and fully exploited there, the Sunni Arabs' bitter opposition to a federal Iraq, favoured by Kurds and many Shias, might fade.

No, we're all patriots for now

Iraqi officials say they hope a final version of the law can be passed by the end of May: a big challenge. Drafting the annexes, which include allocating specific fields to the Kurdish regional government, the central oil ministry and the national oil company, will be contentious. So will drafting a law to distribute revenue. The Kurds say the oil law is incomplete because deadlines were foisted on them. The American ambassador insisted that a new law be written and even, say the Kurds, took part in the bargaining on Baghdad's side.

This sort of pressure also helped produce Iraq's constitution, which is why the final wording was fudged and the federal issue flared up again. Were it not for such flawed agreements made under outside pressure, Iraqi politicians might produce no agreements at all. Yet if there is too much vagueness, the rows will revive all over again. It is unclear yet whether Iraq's emerging oil law will do the trick.

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Saudi Arabia

All puffed up and stalling on reform

Mar 1st 2007 | JEDDAH
From The Economist print edition

Why the newly confident Al Sauds ignore America and glare at Iran

BY AN unnamed law of political economy, the pace of change in Saudi Arabia is governed by the price of oil. When it falls, economic growth slows and political reform accelerates as the kingdom's nervous rulers cede powers to their testy subjects. The reverse happens when oil prices rise. Business booms but fatter wallets make citizens complacent and swell the Al Saud family's status. Reform stalls.

Just now, the law seems to be holding true. Only a few years ago, shrunken oil earnings had roused fears of mass unemployment at home and of less Saudi influence abroad. The Al Sauds hated American policy on Iraq, Israel, Palestine and the promotion of democracy, but stayed sullenly silent. A combination of American badgering and mounting dissent inside Saudi Arabia prompted talk of an urgent need for change. Women and minorities gained slightly wider freedoms; sweeping reform of the Wahhabist-run education and judicial systems were mooted. Elections in 2005 for half the seats on town councils were the ultra-conservative kingdom's first public polls in 42 years.

AFP

A canny head at the House of Saud

But four consecutive years of plenty have nearly doubled the Saudi GDP to $350 billion. Last year's $100 billion current-account surplus helped boost the government's foreign-asset hoard to a record $250 billion. That cushion seems to have boosted the Al Saud family's confidence, too. Their renewed clout is beginning to be felt in the region, with the staunchly Sunni kingdom belatedly moving to counter the growing influence of its greatest rival for Muslim leadership, Iran. Alarmed by the spectre of facing a nuclear power across the Gulf, spooked by the rise of Shia militancy in Iraq, and annoyed by Iran's sponsorship of Islamist causes in Palestine (via Hamas) and Lebanon (via Hizbullah), the Saudis have ramped up their diplomacy. In response, Iran's president, Mahmoud Ahmadinejad, was due this week to make his first official visit to Saudi Arabia.

Assuming effective leadership of what the American administration likes to call “moderate” Muslim states, the kingdom has acted as a quiet good cop to counterpoint the bad-cop belligerence of its oldest ally, America. While shying from any endorsement of a future American strike on Iran, the Saudis have signalled in myriad ways that they are prepared to confront their rival, whether by hinting they will back Sunni insurgents in Iraq, by letting Saudi clerics issue anti-Shia *fatwas* or by pointedly leaving Iran out of inter-Muslim consultations, such as a meeting of foreign ministers recently held in Pakistan. In Lebanon, Saudi support has bolstered the ruling Sunni-led government against a Hizbullah-led coalition's effort to topple it. And by summoning clashing Palestinian factions to Mecca for make-or-break talks to form a unity government last month, the Saudis wielded their Muslim prestige and financial clout to reassert Arab ownership of the Palestinian issue.

The fact that not all this manoeuvring meets America's approval is another sign of Saudi confidence. The deal between Hamas and the secular Fatah party of the Palestinian president, Mahmoud Abbas, failed to force the Islamist party into conceding points that America, the European Union and Russia had demanded as a precursor to renewing peace talks. But in Saudi eyes it was perhaps wiser to wrench the Palestine file out of Iranian hands and to forestall Palestinian infighting than to be perceived as America's enforcer.

Someone has to lead the Sunnis

Many Arabs and Sunni Muslims have been relieved to see Saudi Arabia take on the long-abandoned mantle of Arab leadership, a role likely to be consecrated at the annual Arab summit meeting to be held later this month in the Saudi capital, Riyadh. But the increase in the Al Sauds' prestige, coinciding with the Bush administration's apparent abandonment of its democracy project for the region, has also dampened the hopes of Saudi Arabia's own would-be reformers.

They have reason to be concerned. After the fanfare of the elections, the kingdom's town councils have proved even more toothless than cynics foretold. According to a law enacted in 2005, state employees, who make up two-thirds of the native Saudi workforce, are banned from saying anything in public that conflicts with official policy. Several dozen signatories to a 2004 petition calling for a transition to constitutional monarchy remain forbidden to travel. Three authors of a more recent reform petition are under arrest, charged, almost certainly spuriously, with funding terrorism.

Meanwhile, many of the kingdom's real problems, including jihadist terrorism, remain unresolved. This week gunmen killed four French people weekending in the desert. Even Saudis who shrug off such incidents as the work of madmen or criminals admit to shock at the continuing excesses of the formal religious establishment. An appeals judge recently confirmed the forced divorce of a happily married couple on the grounds of tribal incompatibility. Another sentenced four Sri Lankan bank robbers to beheading, invoking a Muslim statute used against bandits. Women are still deprived of simple rights, such as the right to drive or to travel without a male guardian's permission.

The kingdom may be envied and respected. But it is hardly a model that many others want to follow.

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The International Criminal Court

Ending Sudan's impunity

Mar 1st 2007
From The Economist print edition

The court names its first two people suspected of atrocities in Darfur

IN THE village of Arawala, West Darfur, the women were lined up, stripped naked and tied to trees with their legs apart. Throughout the night, the men of the *janjaweed*, the Sudanese government-backed Arab militia, repeatedly raped them. One woman said she was raped by between ten and 25 men. The soldiers later burnt the village to ash, killing many of its 7,000 inhabitants and forcing the rest to flee.

In the town of Mukjar, also in West Darfur, a witness said she saw her uncle in a makeshift prison after he had been rounded up with other townsmen by the *janjaweed* and members of the Sudanese armed forces. He was suspended in mid-air, his arms bound to a plank in the ceiling, his legs tied wide apart over a burning stove. Some 60 others, restrained in different ways, were in the same room. All had whip marks on their bodies, and their clothes were bloodstained and torn. One had had his finger- and toenails pulled out.

It is for atrocities such as these that Luis Moreno-Ocampo, chief prosecutor of the International Criminal Court (ICC) in The Hague, has asked the court's pre-trial chamber to issue summonses against two men: Ahmad Muhammad Harun, a former junior interior minister in the Sudanese government and head of its Darfur security desk and now, astonishingly, minister for humanitarian affairs; and Ali Muhammad Ali Abd-al-Rahman, better known by his nom de guerre, Ali Kushayb, a leader of the *janjaweed*. Evidence against other suspects, perhaps even more senior, is likely to be presented later.

More than 200,000 people are reckoned to have been killed and some 2.5m others driven from their homes in Sudan's westernmost province since fighting began in February 2003, when black African tribesmen took up arms, complaining of decades of neglect and discrimination by the Arab-dominated government in Khartoum. In the past month alone, some 46,000 more have fled from their villages in an attempt to escape the slaughter, rape and destruction by the *janjaweed* and Sudanese government forces.

Making it all stick

Mr Moreno-Ocampo's presentation on February 27th of 94 pages of evidence, meticulously compiled under very difficult circumstances over the past 20 months, provoked predictable outrage in Khartoum. “All the evidence the prosecutor referred to is lies,” said Mohamed Ali al-Mardi, Sudan's justice minister. Ever since the UN Security Council passed a resolution in March 2005 asking the ICC to investigate the situation in Darfur, Omar al-Bashir, Sudan's president, has repeatedly sworn never to hand over any Sudanese citizen indicted by the court. His own government was perfectly “able and willing” to try the perpetrators itself. Indeed, it had set up a special criminal court in 2005 to do just that. As a tribunal of last resort, the international court had no jurisdiction.

Mr Moreno-Ocampo always knew that admissibility would pose a problem: the ICC cannot prosecute people who are already being investigated or charged in another jurisdiction, for example in their home country. But after five visits to Sudan for talks with government and judicial officials, he is sure they are not investigating the same people (in regard to Mr Harun) or the same crimes (re Mr Kushayb), so his case against the pair should be admissible. It will now be up to the ICC's pre-trial chamber to decide whether he is right. It will also have to decide whether there are “reasonable grounds” to arraign the two.

There are, says Mr Moreno-Ocampo. Though his investigators could not get into Darfur, they screened some 600 potential witnesses during 70 missions to 17 countries, taking formal statements from about

100 of them. He says he has a “very strong case” demonstrating the criminal responsibility of Messrs Harun and Kushayb in relation to 51 counts of alleged crimes against humanity and war crimes, including murder, torture, persecution and mass rape carried out against Darfur's civilians in 2003 and 2004. He makes no reference to America's allegation of genocide.

Mr Moreno-Ocampo's continuing investigations cover the whole period up to the present day. He refuses to divulge whether or when other suspects may be named, saying he will go wherever the evidence leads him. For his first case, he has targeted a chief planner and a primary implementer of the worst atrocities. Their testimony could prove vital in helping him reach those responsible higher up the chain of command. Human-rights lobbies are urging him to go to the top—to Mr Bashir himself. But this would complicate an already complex situation.

Western diplomats are already worried about the impact of the ICC on efforts to get UN troops into Darfur. An agreement on a proposed hybrid UN-African Union force is not even close yet. Under the terms of the UN Security Council resolution on Darfur, Sudan is obliged to co-operate with the court. If it refuses, it could face sanctions or other measures. Meanwhile, the raping and killing in Darfur goes on.

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African films

The Ouagadougou Oscars

Mar 1st 2007 | OUAGADOUGOU
From The Economist print edition

Africa's answer to Hollywood

AFRICA is suddenly big in Tinseltown. Forest Whittaker has just won an Oscar for his portrayal of the Ugandan dictator, Idi Amin, in “The Last King of Scotland”. “Blood Diamond”, a film about the precious stones that fuelled a civil war in Sierra Leone, picked up several nominations. Meanwhile Africa's own film festival, Fespaco, got under way this week in Burkina Faso, in west Africa. Though Ouagadougou, the capital, is richer in dust than glitz, it put on a flamboyant opening ceremony that featured displays of horsemanship and mime. Hundreds of films made by Africans and people of African descent competed for the Yennenga Stallion, a golden statue of a prancing horse and the nearest thing Africa has to an Oscar.

African cinema needs a showcase. Few films are widely distributed, and Fespaco is a chance to win bigger audiences not only among the film buffs of Ouagadougou but also through the distributors and television firms that attend. Fespaco also lets African directors promote a vision of Africa that contrasts with its portrayal by Hollywood. “Hollywood has not been fair to Africa,” says a Nigerian director, Mahmoud Ali Balogun. Most American films set in Africa, he says, accentuate the negative. “I want Hollywood to talk about the beautiful things in Africa, and to use our way of telling the story,” says Moussa Sene Absa, a Senegalese director.

AFP

And the Stallion goes to...

Money can be hard to raise. Mr Sene Absa has been trying for ten years to make a film about his compatriot, Battling Siki, the first African-born world light-heavyweight boxing champion. No one is interested in this uplifting story, he says. But in Ouagadougou he did screen his film “Teranga Blues”, about a young illegal immigrant expelled from Europe and forced, back home in Senegal, to live up to the tall stories he told about having made it big in the West.

Relations with the West are a recurring theme. “Africa Paradis”, by Benin's Sylvestre Amoussou, is set in a future in which Africa has become a paradise and Westerners are desperate to immigrate. Abderamane Sissako's “Bamako” has Africa as a plaintiff in a court in which the World Bank and IMF are being tried.

One boost for African film is the advent of digital technology, which is far cheaper than filming in 35mm. A Moroccan project makes 30 films a year, spending no more than 12 days on each one. The results are impressive: one such film, “La Vague Blanche” by Ali El Majboud, was in the running for the Stallion.

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Italy's government

Prodi resurrected—for now

Mar 1st 2007 | ROME
From The Economist print edition

AP

Romano Prodi's centre-left coalition is back in office, but its chances of lasting for long are not great

BY THE time the Senate, parliament's upper house, voted on the future of Romano Prodi's government on February 28th, he seemed like a figure from a computer game, pressing on relentlessly although blown up and with the way ahead strewn with traps and ambushes. In the event his centre-left government survived by 162 votes to 157, giving it two more votes than the 160 it needed. But few Italians (barely a fifth, said a poll in *Corriere della Sera*) expect it to see out its five-year term.

The government was plunged into crisis when it failed to muster an outright majority in the Senate for its foreign policy. Mr Prodi duly resigned, but after consultations with political leaders President Giorgio Napolitano sent him back to parliament to seek endorsements from both chambers. The Senate is the one that matters: in the lower house, the government has a comfortable majority.

To onlookers, the whole exercise may seem futile: just another example of the histrionic politicking that distracts Italy's leaders and helps to explain why the country finds it so difficult to reform. The episode had real effects, even so.

Most obviously, it shattered Mr Prodi's blithe optimism that he could survive indefinitely without a proper working majority in the upper house. After the defection last September of one centre-left senator, he had the same number of elected senators in the upper house as the opposition leader, Silvio Berlusconi. He could pass legislation thanks only to the leftish sympathies of most of Italy's seven (unelected) life senators. Sooner or later, he was bound to be tripped up on an issue of conscience.

In fact it was two senators from the radical left who mutinied over Italy's military presence in Afghanistan; two life senators unexpectedly abstained. One was a veteran Christian Democratic prime minister, Giulio Andreotti, whose decision may have reflected Vatican distaste for a bill to give legal rights to unmarried couples, including gays.

Another effect of the drama was to highlight the need for a new electoral law to replace the system of proportional representation that was imposed by Mr Berlusconi's government shortly before it was ousted in April 2006. At the time critics said the new system was meant to make Italy ungovernable by creating the stalemate in the Senate that it duly produced. This week Mr Prodi said a new electoral law was an “absolute priority”. Domenico Siniscalco, who was briefly finance minister under Mr Berlusconi, thinks that

Italy cannot be reformed without a new electoral system to weaken the blackmailing power of small parties. But Mr Berlusconi has said this is a “false problem”– and smaller parties will also resist any change.

The brief crisis has shocked the centre-left into unity, at least for now. On February 22nd, leaders of the nine parties in Mr Prodi's coalition issued a list of 12 “non-negotiable” points. They included respect for Italy's international commitments and undertakings to press ahead with two controversial plans—a high-speed rail link with France and a programme of liberalisation. The list was notable for omitting rights for unwed couples.

As well as pleasing Mr Andreotti, that made easier one more change: the defection of a centre-right senator, Marco Follini, one of two opposition rebels. Although a former leader of the conservative Union of Christian Democrats (UDC) and briefly a deputy prime minister under Mr Berlusconi, he had been disrupting the centre-right with his dream of a coalition of the centre as the only solution to Italy's problems. Mr Follini's departure has prompted speculation of a wider, maybe Vatican-inspired, move to give the government support from the UDC, or at least from some of its legislators.

Mr Prodi's speech to the Senate showed that he is alive to this possibility. One commentator called it a “formidable example of Christian Democrat oratory”. He managed not to make any reference to the law on unmarried couples. He hinted at better pensions for the worst-off, lower taxes for home-owners and restrictions on short-term employment, all policies that would please the UDC.

Whatever else they may achieve, though, Mr Prodi's overtures to the right may not improve the chances of further liberalisation in Italy. Mr Follini himself may sympathise with the liberal cause, but lots of his former colleagues are diehard corporatists who, like him, get most of their votes from the south, where many households depend either on welfare or on public-sector employment.

Besides, although an influx of conservative Christian Democrats would make the governing majority bigger, it would also make it more discordant. The UDC stretches a long way from the centre. Its members include Rocco Buttiglione, whose reactionary views on gays and single mothers cost him a seat in the European Commission in 2004.

Even for the present centre-left coalition, the way ahead looks testing. It could easily split if, for example, the government abandons the unwed-couples bill. Parliament has yet to approve renewed funding for Italy's contingent in Afghanistan and as many as three senators could abstain on that. And the coalition might also rip itself apart over pensions, the next test of its ability to reform.

Proposals leaked this week showed that the government was preparing to retreat from a pension reform introduced by the Berlusconi administration. This responded to Italy's escalating welfare bill and to a central problem of its economy, which is that too few older people are actively employed. The reform, due to take effect next year, would have stopped workers from retiring before the age of 60. The new plan will allow them to go at 58.

Yet instead of welcoming this backsliding from reform, union leaders expressed outrage over another idea: to ensure that pension costs are not increased inexorably by rising life expectancy. A link between pensionable age and life expectancy was due to have been made two years ago in line with a law passed in 1995. One union leader has now proposed a general strike to stop it. Poor Italy.

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Bosnia

Where the past is another country

Mar 1st 2007
From The Economist print edition

Three big decisions about Bosnia's past and future

SOMETIMES the response to a judgment is more predictable than the judgment itself. When the International Court of Justice ruled on February 26th that Serbia was not responsible for genocide in Bosnia during the war in 1992-95, newspapers in the Bosniak (Muslim) and Croat region of Bosnia called it a “fraud”, an “insult” and a “disgrace”; those in the Serb part of Bosnia talked sanctimoniously of the “truth”.

Bosnia launched the case in 1993, when the situation in the Balkans was different from today. Hundreds of thousands of Bosniaks and Croats had been ethnically cleansed by Bosnian Serb forces; Sarajevo and other cities were under siege; and the Serbian flag flew from the coast of Croatia to the southernmost tip of Kosovo. Now Bosnia is an uneasy federation of two autonomous bits, one Serb and the other Bosniak and Croat.

The judgment did not go wholly the Serbs' way, because it declared that genocide had indeed taken place in Srebrenica, in eastern Bosnia, in 1995. It also reprimanded Serbia for failing to stop it. But to Serbia's relief, it added that Bosnia could not demand reparations.

Conspiracy theorists think the ICJ delivered its verdict under political pressure. The argument is that Serbia, which faces the loss of Kosovo, its southern province, had to be appeased in some way. A bigger question concerns the evidence before the court. Serbia had to give incriminating transcripts to the United Nations war-crimes tribunal, which like the ICJ is in The Hague—but it did so only on condition that cases were heard in camera, to stop the evidence falling into the ICJ's hands.

Two other decisions this week may prove as important for Bosnia's future as the ICJ judgment is for its past. On February 27th the European Union confirmed its provisional decision to cut the size of its peacekeeping force. At the end of the Bosnian war, 60,000 NATO-led peacekeepers went in. In 2004 they were replaced by a 7,000-strong EU force, the biggest the union has ever deployed. That force will now be cut to 2,500 by the end of the year.

Does that mean that Bosnians can on their own sustain the peace and rebuild their country so that it one day joins the EU? Not quite, apparently. For the other decision was to extend the office of the high representative in Bosnia. This job, which carries powers to sack elected political leaders and impose laws, was due to be wound up by the end of June 2007. But it will now go on for another 12 months.

The present high representative is a German, Christian Schwarz-Schilling, who came to office determined that Bosnians must soon run their own country. But he has now changed his mind—or at least decided that it is too early to give up the job's powers. The question is whether all Bosnians will agree. Bosnian Serb leaders are hinting that they may not. They are talking rather of holding a referendum on independence, if and when Kosovo gains its own independence from Serbia.

After the ICJ judgment one commentator argued that Bosnians had to find a common history, otherwise they would have no common future. Today Bosniaks, Bosnian Croats and Bosnian Serbs teach children radically different stories about the war. Yet fate has decreed that they must share their state. Bosnia has made great progress over the past decade. The trick will be to get its citizens to co-operate, and not let the past rob Bosnia of a future.

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Spain's regions

The Spanish centrifuge

Mar 1st 2007 | MADRID
From The Economist print edition

Madrid is losing its grip, even if Spain is not yet a federation

NOT since the last Moorish ruler, Boabdil, quit Granada in 1492, after 781 years of Muslim rule in al-Andalus, has anything like an Andalusian nation existed. But a new charter of autonomy gives Andalusia a “nationality”, and even a “millennium-long” history. It has provoked surprisingly little passion in the home of flamenco, Don Juan and Carmen. Barely a third of Andalusians bothered to vote in the referendum that said yes to the charter. Both the ruling Socialists and the opposition People's Party were in favour.

The new charter demonstrates the growing power of the 17 autonomous regions into which Spain divided itself after Franco. Although the country is not a federation, it increasingly looks like one. Spain is one of Europe's most decentralised states—more than some overtly federal ones, says Francisco Balaguer, at Granada University. The regions control some 36% of public spending. Ministries in Madrid are seeing their budgets dwindle fast.

Andalusia is the third region (after Valencia and Catalonia) to get a revised charter since the federalism-friendly prime minister, José Luis Rodríguez Zapatero, came to office in 2004. Others, like Galicia and the Basque country, should follow later. By the end of his (hoped-for) second term in 2012, Mr Zapatero wants to have all 17 regions fitted out with new charters. The opposition is officially against, but their local chiefs, like politicians anywhere, rarely dislike extra power.

The new charters combine bureaucratic detail with romantic verbosity. Local preferences loom large: the Catalans want to protect their language; left-leaning Andalusians want free school textbooks, publicly financed flamenco and equal numbers of men and women on public bodies. But some features are common, especially the paeans of praise for distinctiveness, cultural and historical.

There is confusion too. Should the government divide the pie by size, population or wealth? Each region offers reasons why it should be high up the pecking order. So far, Catalonia has been the pushiest and most successful. Others want to catch up. All charters must be vetted by the Madrid parliament, which tends to water them down. The Constitutional Court might yet strike out bits of the Catalan charter.

Nor do the charters give any right of secession, much as some Basques and Catalans would like one. Words are carefully chosen: Andalusia is a “nationality”, not a “nation”. The Catalans' charter admits that, although they think of themselves as being a nation, the rest of Spain does not.

Tussles over centralism have bedevilled Spanish politics since Boabdil's last sigh. Some worry about cost and the creation of new boondoggles for public officials. Others fear that autonomy will lead inexorably to separation. But for now most voters seem not to care that much.

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France's presidential election

The third man

Mar 1st 2007 | PARIS
From The Economist print edition

François Bayrou steps up to the plate

Get article background

THE byways of French politics are littered with men once tipped to be president. The voters have a genius for humbling favourites and exalting outsiders. Add the fact that presidents are elected in a two-round system, and surprises are always possible. In 2002 the surprise was unpleasant: the far right's Jean-Marie Le Pen beat the Socialist candidate in the first round. To their dismay, the voters had to choose between Mr Le Pen and the incumbent, Jacques Chirac, in the run-off.

This time the surprise may come from a politician best known for being nice. François Bayrou, a perennial also-ran, has climbed past Mr Le Pen to be the “third man” of the moment. A new opinion poll this week gives him 19%, within hailing distance of the Socialist challenger, Ségolène Royal, on 25.5%; the centre-right UMP candidate, Nicolas Sarkozy, is on 29%.

Mr Bayrou's big plan is to assemble a coalition uniting the left and right. He talks about the possibility of naming a prime minister from the left. (His ideal would be a younger version of Jacques Delors, a former European Commission president.) A devout Roman Catholic who takes a liberal line on issues such as gay rights, Mr Bayrou is a father of six (and grandfather of 10), who when not politicking writes history books and breeds horses on the family farm in the Pyrenees. He heads a rump centrist party, the UDF. His government experience is limited to a stint as education minister a decade ago.

A French television host once dubbed Mr Bayrou the “horse whisperer”, after the book and film of that name. It conjures up a compelling image of Mr Bayrou persuading a skittish electorate to accept reforms with soothing murmurs about left-right pacts. His love of horses is authentic: even as he explains his policy on Iran (he would support tougher sanctions), he takes a call from his farm, and swears softly on learning of a stillborn foal.

Yet Mr Bayrou rejects the idea of a skittish France, fearful of change. Instead, he paints the French as deeply distrustful, in search of “guarantees” that reforms are “fair”. Coalition rule offers just such a guarantee, he argues. “If you do not have a broad-based government, citizens will think reforms are being pushed for reasons of ideology.”

Mr Bayrou derides his rivals for proposing to spend France's problems away. He has called for tighter control to eliminate budget deficits. He wants to encourage longer working hours, and says that France must learn to love entrepreneurs. But some of his policies carry a whiff of populism. With French workers in a funk about globalisation, Mr Bayrou has joined those accusing China of undervaluing its currency. Mr Bayrou says the yuan is “400% undervalued”, and wants pressure put on Beijing. Does he believe China will suddenly revalue enough to allow European producers to compete on price? At least the question should be put, he retorts.

If Mr Bayrou were to win, his path to victory might in hindsight look obvious. Mr Sarkozy has slalomed between talk of liberal reforms and an authoritarian tone aimed at those who backed Mr Le Pen in 2002. That has done Mr Bayrou the favour both of hurting Mr Le Pen and of driving middle-class conservatives to the centre. Mr Bayrou has also benefited from the wobbliness of Ms Royal's campaign. She has had to shore up her core vote by embracing Socialist orthodoxy and surrounding herself with the old party elephants.

The two main candidates' partisanship would be good news for Mr Bayrou if he somehow squeaked into the second round. Head to head with either Mr Sarkozy or Ms Royal, he could be seen as the least bad option by a majority of voters, handing him outright victory.

Yet that would still be a big surprise. Mr Bayrou's support base is soft; pollsters always have trouble measuring Mr Le Pen's strength; voters on both left and right remember 2002 and are likely to rally to the frontrunners in the closing days. For all Mr Bayrou's comforting talk of coalitions, many French people still take a tribal view of politics. The odds are on a Ségo/Sarko run-off. But the race has a third man who cannot be written off.

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Charlemagne

A cool peace

Mar 1st 2007
From The Economist print edition

Peter Schrank

The Baltic Sea region is feeling the pain from Europe's awkward relationship with Russia

PEOPLE in Paris, London or Rome sometimes see Europe's north-eastern corner as a bit of a backwater. The history of Europe, they think, was not written there. Yet this is the bit of the continent that stares Russia in the face over a shared land border. Russia is one of nine countries that surround the Baltic Sea: the rest are now all members of the European Union.

Because of this, the supposed (but actually fast-growing) “backwater” is unusually sensitive to the state of relations between the EU and Russia. If the union were succeeding in its aim of binding Russia into a peaceful network of mutual obligations, this would be the first region to benefit. Equally, if the EU were united in opposition to growing Russian assertiveness, the Baltic could be a theatre of co-operation between eastern and western Europe.

But in fact neither condition holds. Instead, the countries around the Baltic Sea are being squeezed, between a new aggressiveness on the part of Russia and the old indecisiveness of the EU. The result is that the region is suffering from what might be termed a cool peace.

The clearest evidence of the squeeze is the current dispute over America's fledgling anti-ballistic missile shield. The governments of Poland and the Czech Republic (and now of Britain too) want parts of the system stationed on their territory. “What's good for Polish security is good for Lithuania's,” says the Lithuanian deputy foreign minister. But Germany's foreign minister gave the proposal a less-than-ringing endorsement by complaining that Russia had not been consulted. “I can't imagine,” declares Lithuania's prime minister, “it will be possible for Europe to speak with one voice [on the missile shield].”

This difference, serious in itself, reflects a deep-seated division over how to deal with Russia. Pragmatists, such as France and Germany, want to do business with the bear; several former Soviet satellites are suspicious or actively hostile. One example of this divide came last year when Poland refused to agree to the start of negotiations on a new partnership agreement that sets the ground rules for relations between the EU and Russia. At first EU officials attributed the veto to the eccentricity of Poland's Kaczynski twins, whom they accused of overreacting to a Russian embargo on Polish meat exports. But it has since become clear that the real obstacle is a broad east European concern that the EU is not united enough to negotiate with Russia. The Lithuanians say they might join the Poles in blocking the talks.

The divide between the pragmatists and the alarmists has narrowed a bit recently, mainly because pragmatists were spooked by a ferociously anti-American speech from Vladimir Putin, Russia's president, at the Munich security conference last month. A real eye-opener for the rest of Europe, commented one Polish official. The revived cold-war rhetoric has impelled pragmatists to push harder for a common EU energy policy (supposedly a way to reduce dependence on Russian gas) and to beef up the EU's relations with its eastern neighbours in Ukraine, the Caucasus and Central Asia.

At the moment, however, all this is mostly talk that does little to reassure the EU's ex-communist states. When a Polish company outbid a Russian one for a privatised Lithuanian oil refinery (the biggest sale of its kind in eastern Europe), Russia mysteriously discovered a rupture in the ill-named Druzhba (Friendship) pipeline that supplies the crude. Months later, it is still said to be worn out. Baltic countries complain that the EU has done nothing. “We were full of rosy dreams [when we joined the union],” says a Lithuanian foreign-ministry official. “We thought Europeans would speak to Russia with one voice. Now we're fighting Russia on two fronts.”

Energy is at the heart of the fight. In their attempt to diversify from Russia, the Baltic countries are pulling together, and apart from the rest of Europe. Poland, Lithuania, Latvia and Estonia want to build a new nuclear power station on the site of a Soviet-era one that is being closed down on the orders of the EU. This site once gave birth to an anti-nuclear movement that fuelled Lithuania's struggle to regain its independence: such are the ironies of history.

A Baltic Union?

Almost every country in the region is linking its electricity grid to somebody else's. After a decade in which “eastern Europe” seemed to have little in common but anti-communism, the energy plans and the anti-missile shield suggest that a new regional co-operation might be stirring.

If so, that is partly in response to a pipeline that Russia and Germany are planning to lay on the Baltic seabed to pump gas directly from one to the other, circumventing the pesky countries in between. For the Germans, the pipeline means greater security; but the other countries in the region see it as a threat. They fear it could cause ecological disaster in already-polluted waters or lead to gas shortages among existing customers, since there will not be enough both for them and for the Germans. Sweden says Russia may use it (or, rather, a pumping-station) for espionage. Everyone agrees it will boost Russia's price-setting power.

This dispute is rooted in competition for gas. But it has been made more bitter by growing anti-German sentiment in Poland. The Kaczynski twins criticise their predecessors for giving too much away to Poland's partners in the EU (which to them is essentially synonymous with Germany). They also say that Germany discriminates against its Polish minority. As a result, Poland is at loggerheads with much of the EU as well as with Russia. It would be an exaggeration to say that this is causing the strategic uncertainties in the Baltic, which spring more from Russian aggressiveness. But the Polish government is making it harder to answer the plaintive question of a Lithuanian official. “We are small. Where is our dear Europe?”

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Correction: Sweden's decision

Mar 1st 2007
From The Economist print edition

Sweden's decision to apply to join the European Union came not during Carl Bildt's 1991-94 government , as we said last week ("Back on the block"), but during the previous administration. Sorry.

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The National Health Service

The power game

Mar 1st 2007 | SHEFFIELD
From The Economist print edition

David Simonds

Family doctors are being asked to get a grip on hospital spending. It is a tough battle

Get article background

EVER since the National Health Service was founded almost 60 years ago, hospitals have had the upper hand in terms of prestige and resources. In Sheffield the power of the teaching-hospitals trust is as palpable as the steel for which the city in South Yorkshire was once renowned. It occupies two sites, one to the north of the town, the other close to the centre near the university, where a 20-storey tower block has specialist units clustered round it.

Compared with the grandees working in hospitals as consultants, general practitioners (GPs)—the main contact for patients—have been the junior partners in the NHS. At the Avenue practice in the south of Sheffield, six GPs and three nurses look after 8,700 patients in what is a bigger surgery than many. Yet it is a modest enterprise compared with the teaching-hospitals trust, whose 13,000 staff make it the city's second-biggest employer.

Now David is taking on Goliath. GPs in England are beginning to play a crucial part in restraining hospital spending. Unlike family doctors in most other advanced countries, GPs in the NHS have long acted as “gatekeepers”, controlling patients' access to expensive hospital care through their referrals for treatment. Now this insurer-like role is being widened and made more explicit as they become responsible for clinical budgets covering hospital care as well as some of their own costs.

In Sheffield the Avenue has joined forces with 15 other practices to form a consortium with a patient population of over 90,000. Altogether there are eight consortia in the city looking after a budget of more than £300m ($588m). Of this a quarter pays for the drugs GPs prescribe while the remainder goes towards the cost of acute care in hospital.

The budget has been devolved to the GPs by the primary-care trust (PCT) in Sheffield, one of 152 which purchase most of the health care in England. The trust still pays the bills covered by the budget. However, the reform aims to add some clinical muscle to PCTs, which until now have been rather weak buyers of medical care. That task has become pressing as the NHS has slid into deficit.

More cost-effective purchasing has become essential because other policy changes have loosened restraints on the supply of costly hospital services. Twenty miles down the motorway from Sheffield, for

example, is the Barlborough treatment centre, which carries out orthopaedic operations. Run by the Partnership Health Group, it is one of several private clinics that sprang into existence after the government put a slice of elective care out to tender in order to challenge the monopoly of state-owned hospitals.

The government has also sought to unleash greater enterprise among existing NHS hospitals by letting more of them have a freer financial hand in running their affairs. Sheffield's teaching-hospitals trust was among the first 20 to win this cherished “foundation” status in 2004. Now 54 acute-care trusts—nearly a third of those in England—have achieved it, and the goal is that eventually all will do so.

Most important, the government has shaken up the way that hospitals are paid. Under previous arrangements, hospitals got the bulk of their income through “block contracts” which largely reflected past budgets. Now most of it comes from activity-based payments: the more work hospitals do, the more money they get. Neil Priestley, the finance director of Sheffield's teaching-hospitals trust, welcomes the clarity: “The old fudge has gone. If you do something, you get paid.”

Strengthening the buyers

But if providers now have keener incentives to do more, purchasers must be stronger in order to control costs. As Tony Blair's health-policy adviser in 2004 and 2005, Julian Le Grand of the London School of Economics spotted the danger: “I was worried that the primary-care trusts were too weak; too often they got walked over by the hospital trusts.”

One step has been to rationalise the primary-care trusts. When they were originally set up in 2002 there were around 300 of them, but since October the number has been halved. The change has been especially marked in Sheffield, where four smallish PCTs have been merged into one. The reorganisation so soon after they were first established was an unwelcome distraction. However, Mike Curtis of the Yorkshire and Humber strategic health authority, which oversees the PCT, says that “the new organisation will have more clout”.

But the reform that matters is the one that Mr Le Grand urged when advising Mr Blair: to make purchasing more cost-effective by mobilising GPs. “Practice-based commissioning” in fact resurrects the Tories' policy of the 1990s when GPs held their own budgets for prescribing and elective care. Research at York University suggests that this did help to restrain demand. About half of GPs had become “fund-holders” before the Conservatives lost power in 1997. Among these practices, referral rates for elective care were 3% lower than they would have been if they had carried on as before.

Labour's policy is more ambitious since it covers all family doctors. Their budgets include emergency hospital care and will be extended in a month's time to mental health. In Sheffield Chris Ratcliffe, deputy director of commissioning at the PCT, expects the reform will help to close the trust's deficit. The budget controlled by the GPs should contribute half the savings the PCT is hoping to make in 2006-07.

The consortium to which the Avenue practice belongs is currently concentrating its efforts on reducing unnecessary referrals to hospitals. While the PCT is in deficit, the GPs are not expecting to keep any savings for themselves, says St.John Livesey, who leads the consortium. But in the longer term, family doctors have a clear incentive to be involved in commissioning. Practices will retain 70% of any savings (the PCT will keep the rest), provided that they are ploughed back into better services.

One potential drawback is that GPs' revived role in purchasing may stymie competition in the primary care they provide. The reform could put off potential competitors with new ideas about integrating care across the traditional boundary between GP practice and hospital. Family doctors, for their part, may worry that they will get the flak for containing costs. Another finding from the research at York University about the 1990s was that patients of fund-holders were less satisfied with their GPs.

Practice-based commissioning is reinventing GPs' historic “gatekeeper” role in a more market-based health service. Whether or not it works may determine the NHS's ability to survive less generous funding from the spring of 2008.

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Rating hospitals

Adding voice to choice

Mar 1st 2007
From The Economist print edition

What the patients actually think

Get article background

IN MOST markets, consumers drive up standards because they can vote with their feet. One reason why it is difficult to improve the quality of health care in the NHS is that this sanction has been missing. The government now wants to promote choice by giving people the right to decide among different hospitals when their doctor refers them for elective treatments. But how are patients to make the choice?

The advice of GPs counts for a lot. The Healthcare Commission, an independent watchdog, provides ratings for the quality of services in English hospitals. All this helps, but it leaves out the direct views of patients themselves. Now they can be found on a pioneering website that Paul Hodgkin, a GP in Sheffield, has set up.

“Patient Opinion” lets people post their own views about how they have been treated in acute-care hospitals. The website provides feedback about the qualitative aspects of service, such as whether patients were kept informed or treated with respect, that often tend to be ignored. Clearly this is useful to potential patients, but Dr Hodgkin says it should also help hospitals to do better by putting right the faults that are pointed out. Meanwhile positive reactions encourage staff who are already doing a good job.

The website started in South Yorkshire in the autumn of 2005 and extended its coverage to the rest of England last year. So far it has attracted 1,700 comments, of which half have been appreciative, a quarter critical and the remainder mixed. The potential for growth is clear as more people find out about it when seeking guidance on which hospital to choose.

The website is run as a social enterprise—a business with public-interest objectives. Its income flows from the NHS hospitals and other organisations that subscribe to it. In return they can respond to each comment and receive summary reports, including comparisons with other hospitals.

Dr Hodgkin says that the internet is now “democratising voice”. Certainly, patient voice should reinforce patient choice—one reason why the NHS has encouraged the initiative.

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Road safety

Suffer the little children

Mar 1st 2007
From The Economist print edition

Britain's roads are among the safest in the world—unless you're a youngster

LOTS of everyday tragedies are less newsworthy than one spectacular one. That is one reason why a train accident in Cumbria that killed one person and wounded 60 got so much coverage this week. Road-safety figures published on February 26th by the Audit Commission, a spending watchdog, received much less attention, although roads kill roughly 100 times more people every year than railways. In 2004 3,200 Britons died in traffic accidents; 280,000 were injured.

Despite those grim statistics, Britain's road-safety record is actually rather good. England's roads are the third-safest in Europe. But, as always, averages hide as much as they reveal. Twice as many child pedestrians are killed in England as in France or Germany, and three times as many in Scotland (see chart). The government aims to reduce all road deaths and serious injuries by 40% by 2010 from their average between 1994 and 1998, and to cut children's deaths and grave injuries by 50%.

Disentangling why British children have such a tough time of it is tricky. Urbanisation may be one cause. City roads—especially main roads—are the riskiest for pedestrians, says Oliver Carston, a transport expert at the University of Leeds; Britain is one of the most urbanised countries in Europe (although the Netherlands, which is just as urban, does well on child safety). Town planning is another possible culprit. British cities—not designed with the motor in mind—may expose children to greater risks by encouraging them to spend more time near busy main roads, whereas continental towns tend to restrict them to quieter residential lanes.

Child-accident rates correlate with deprivation, and income distribution in Britain is notably unequal. Poor parents are less likely to drive their offspring around, which is safer than walking. And whereas middle-class children can play in their gardens, many public-housing estates lack such amenities.

Happily, fixing the problem is easier than divining its causes. Traffic-calming measures work well, and speed limits have been lowered around schools and in many residential areas. “There's lots of opportunity to fiddle with the infrastructure, and payback rates tend to be high,” says Ben Johnson of the independent Transport Research Laboratory. Other solutions are even simpler: British primary schools are unusual in having no compulsory road-safety education.

So far, the government seems to be meeting its target: by 2005, child deaths and serious injuries had fallen by 49%. But European rates are falling too, and it is not clear that Britain will be able to close the gap. If the researchers are right, and the underlying problems are to do with poverty and city design, then they may be beyond the ability of transport experts to fix.

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Official statistics

Ministering to the truth

Mar 1st 2007
From The Economist print edition

A chance to make government numbers more trustworthy is being missed

TUCKED away in Labour's 1997 election manifesto was a pledge to create an independent government statistical service. Public cynicism about official figures had become pervasive as Labour's Conservative predecessors fiddled 23 times with the unemployment count in an effort to bring it down to a politically acceptable level. Removing the production of official statistics from the political process would, it was thought, restore confidence.

But Labour dissipated its reforming zeal instead on a vague code of practice and a powerless, if respected, watchdog. Government figures continued to be produced by a hotchpotch—although the central Office for National Statistics (ONS) is responsible for most economic and social statistics, government departments produce most of their figures in-house. Distrust of government numbers did not go away. Only one person in five thinks official figures are produced without political interference, according to a survey in 2005.

Now, at last, a law is in the works. The Statistics and Registration Service Bill, expected to have its third reading in the House of Commons on March 13th, purports to make official statistics independent. The bill's fans say it will give official figures the sort of credibility that ceding control over interest rates to the Bank of England gave to monetary policy. Alas, these timid changes bear no comparison.

The centrepiece of the planned reform is a new Statistics Board, which will serve as both the executive of the ONS and the overseer of the entire government statistical system. Its powers will in fact be limited. The board will not have control over all government statistics. The code of practice it is to write covering matters such as the quality and confidentiality of official figures will be binding only for “national statistics”. Individual ministers will decide whether to nominate their figures—including some of the most politically sensitive, such as those on crime—for this kitemark.

Nor will the board be able to insist that numbers continue to be collected when ministers want them dropped, no matter how much businesses, voters or the opposition rely on them. According to Michael Fallon, a Tory MP, during Labour's first term it stopped recording figures on the impact of indirect taxation on household income: “The suspicion was that they made stealth taxes too transparent.”

Most importantly, the board will have no power over when and how even the figures within its remit are published. There are three main flaws.

The first is that government departments will still be able to choose good days for burying bad news. In 2006, for example, the education department brought out poor primary-school test results on the same day as more heartening GCSE ones.

The second is that ministers will continue to see figures long before they are made public, and so have plenty of time to pick out the most flattering data and craft a message for public consumption. At the moment, ministers see new figures up to five days before they are published; this is to come down, but only to a still-generous 40 hours. Most countries ban ministerial peeking, giving them at best a couple of hours' notice for a few important statistics.

The third flaw is that the board will have no say in what words are wrapped around the numbers—the only bit most people read. Statistics are all too often presented in cheery press releases emphasising flashy new policy initiatives, and by the time the opposition and the media have had time to digest the numbers behind the hype, the news has moved on.

All this matters, because more official numbers than ever are being produced, and for a wider range of

purposes. The Labour government has built an elaborate edifice of targets and monitoring, with the aim of proving that higher spending on public services has been good value for money. Performance is often measured according to figures produced by the very organisations being judged.

Naturally, people play tricks and stretch definitions in order to meet their targets. Schools, for instance, are ranked according to how many students get five GCSEs at grade C or above—so young people are steered towards easier subjects and those at the borderline between D and C get most attention. Hospitals are not supposed to keep patients waiting more than 20 weeks for non-urgent operations—so some make everyone wait 18 weeks. Emergency units are punished for keeping patients waiting more than four hours—so some admit patients before four hours are up and then keep them hanging about.

The two main opposition parties, the Statistics Commission and professional bodies such as the Royal Statistical Society have all criticised the government's half-baked reform. They want the Statistics Board strengthened and given power to stop abuses. Some departments may move alone to restore the credibility of their numbers—the Home Office is making encouraging noises about proposals from Adrian Smith, a leading statistician, on how to improve its much-distrusted crime figures. But all legislative amendments along these lines have failed. A pity.

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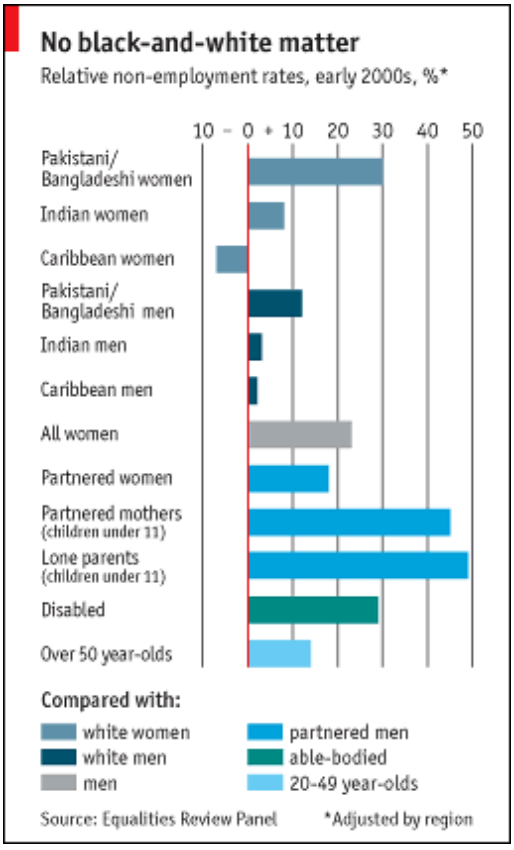
Policing inequality

The backward majority

Mar 1st 2007
From The Economist print edition

Black, gay, female, old: things are getting better

WHEN Enoch Powell, a Conservative MP, gave a speech in 1968 calling for an end to immigration, he received so many letters of support that the Royal Mail had to assign him a special van, which made several deliveries a day. Race relations in Britain have since improved, in part thanks to laws passed at the end of the 1960s that criminalised racial discrimination. Laws against other types of discrimination followed. Gay, disabled, old, female—most conditions are covered. But what looks like unfair treatment is often hard to distinguish from the choices made by individuals. The Equalities Review, a semi-independent report that came out on February 28th, shows this all too clearly.



The review matters more than many of its kind because it will guide Britain's new super anti-discrimination agency when it begins life later this year. Britain relies not only on its laws to prevent unfair treatment but also on specific bodies charged with enforcing them. People need not bring discrimination cases against palaeolithic employers on their own, or club together to bring class-action suits; government-funded organisations sponsor their cases through employment tribunals. The three main quangos, which cover race, disability and sex discrimination, will in October become the Commission for Equality and Human Rights, under the guidance of Trevor Phillips. In a presentation to an all-party parliamentary group last year, Mr Phillips wryly predicted that this new arrangement would bring “universal happiness” some time in 2009.

In fact the best of all possible worlds may slowly be coming about without the help of the new agency, if a separate report released this week by Richard Berthoud and Morten Blekesaune of the Institute for Social and Economic Research (ISER) at Essex University is right. The Equalities Review suggests that mothers with young children trail the pack in terms of employment (see chart); but a far bigger proportion of them are working than 30 years ago. Women are paid less than men, but the main reason is not that potential employers see an oversized handbag stuffed with nappies and ask the next candidate to come through, but that time out of the workforce reduces wages later on. Bangladeshi and Pakistani women have low levels of employment. But this may reflect a cultural preference for women to stay at home (which plenty of them break) rather than covert racism.

As for the oldies, the ISER report shows that the chances of someone aged between 50 and 60 being in work have picked up a bit since the late 1990s. The one group that has made no progress at all is the disabled, a broad category that includes anyone with a “limiting longstanding illness”. They are the hardest to help, due to a combination of time spent out of work, which sometimes means getting stuck on incapacity benefit, and the fact that people with severe disabilities simply cannot do some sorts of work.

That makes the job of Mr Phillips and his new organisation harder. The “long-term strategies, with phased targets” that the review calls for will count for little if the wrongs they are designed to right arise from individual choices, unequal results at school, spotty employment histories—or, indeed, from the condition that often underlies all of these: poverty.

Undeterred, Mr Phillips argues for changes in the law to permit positive discrimination where it benefits

the public. When he was head of the Commission for Racial Equality, Mr Phillips says, he had to prevent London's police force from running a programme to recruit black officers, which would have been illegal. He also exasperated intelligence officials by asking how they could seek to hire more Muslims without breaking the law.

Mr Phillips reckons that it might occasionally be necessary to discriminate in favour even of whites. One of the review's findings is that boys from poor white families are “probably the single group most likely to be shut out of higher education in future decades”. Mr Phillips thinks universities where most of the students are from ethnic minorities and disproportionately female should, for example, be allowed to seek out white boys. As discrimination goes, the notion sounds relatively benign—but out of such good intentions come perverse results.

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Reforming probation

Privateering

Mar 1st 2007
From The Economist print edition

Yet another public service faces contracting out. Will it work?

WHEN a gang of enlightened Warwickshire magistrates invented probation two centuries ago, privatisation was no big deal. Young offenders were released into the charge of a local employer, who kept them busy and saw that they stayed out of trouble. The government did not begin to figure in the equation until the 20th century.

How times have changed. A move to hand some probation work back to the private and non-profit sectors almost ended in upset this week, when Labour MPs staged a near-fatal revolt. The government's Offender Management Bill, which crept through the House of Commons on February 28th by 293 votes to 268, would allow private companies, charities and others to bid to run probation services (a wide brief, from managing rehabilitation programmes and community sentences to supervising ex-prisoners on licence). It would simultaneously shift responsibility for these services from the 42 local probation boards in England and Wales to the home secretary, John Reid, who would award contracts through regional agents.

The changes—hot on the heels of another big shake-up in 2001—reflect the government's impatience that re-offending rates are not budging, even though it has “thrown money” at the problem, as Mr Reid says. Spending on probation services will exceed £900m in the year to April, up more than 40% in five years. Yet ungrateful convicts refuse to mend their ways: 58% of them re-offend within two years, a proportion that has not shifted in a long time.

The MPs who voted against the bill (as well as most probation officers and some charities) are not convinced that this mix of centralisation and privatisation is the way out of the problem; some would prefer to lighten probation officers' heavy caseloads. Many simply feel queasy at the thought of firms focused on profit operating in the criminal-justice system.

Until they came to power Labour's leaders were dead against even privately-run prisons, which now are numerous. But the prize for broadened participation is, in theory, the increased choice and lower prices that competition can bring. Privately run prisons are said to have improved standards overall: although the most recent quarterly review rated private jails slightly worse than others, supporters say their presence has kept public prisons on their toes. The Confederation of British Industry, a business group, reckons that under the impact of privatisation prison costs fell by 20% between 1991 and 2002.

Would the same trick work with probation? The National Offender Management Service thinks open bidding would reduce costs by between 3.5% and 8.5%. But the National Association of Probation Officers, a union, says private efforts so far in probation work have been “a disaster”. Contracting out hostels has raised prices by 30% and worsened standards, it says. An official report found that private participation in escorting prisoners was a “very mixed picture”: security was good but the vans often turned up late for court.

The jobs that are about to be contracted out could prove more challenging still. Much probation work is subtle and quasi-judicial, requiring more experience than the logistical tasks that have been delegated so far. There is also scope for appalling conflicts of interest: but for a last-minute amendment, the current bill would have allowed firms to write sentencing reports that recommended sending convicts on courses they themselves offered. Similar loopholes may yet arise.

The government's frustration with the stubborn re-offending rate may be misplaced. The most recent figures are for those who finished their sentences in 2003. Things may have improved since all that money flooded in. And the probation service is doing well compared with prisons: only 53% of those who served community sentences re-offended, compared with 66% for those who did time in jail.

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Schools lottery

Battle of Brighton

Mar 1st 2007
From The Economist print edition

A new way to ration places at popular schools

NOTHING is more terrifying than a mother who scents a threat to her offspring. So it is not surprising that residents of the posher parts of Brighton and Hove, a seaside town with an eclectic social mix, are on the warpath about a change to the way school places are awarded. Threatening e-mails, allegations of gerrymandering and warnings that parents would sue were only part of the reaction to this week's news that, from 2008, the local authority will allocate places in popular schools by lottery.

Until now, if more children applied to a school than it had room for, those who lived nearest usually won out. As a result, houses next to the most sought-after schools soared in value—entrenching the schools as middle-class ghettoes and increasing their desirability still further. Those who could not afford to live within spitting distance had to go elsewhere. Families living in east Brighton, with no schools nearby, were left to squabble over the crumbs.

Eight secondary schools have been divided into six “catchment areas”, two of which have pairs of adjacent schools. If a school cannot accommodate all the children who apply, the council will allocate places randomly, giving preference to those within the catchment area. Some children who would previously have walked to the school around the corner will be bused or driven past children going the opposite way.

The scheme has been two years in the hatching. It was nearly derailed by the bitter opposition of parents who had paid top prices for houses next to the schools they liked. They now face not only the possible frustration of their educational hopes for their children but also the prospect that their investment will slump in value.

In the end these parents were defeated by the nifty footwork of Labour councillors determined to push the plan through. The vice-chairman of the committee that voted on the scheme was sacked by the city's Labour leader just two hours before the vote on February 27th—after she made it clear that she would be voting against. It went through only on the chairman's casting vote.

Similar battles may soon be fought all over Britain. On February 28th a new admissions code for schools in England and Wales came into force, setting out how a school may decide among the competing claims of children who apply. Religion, proximity and having siblings at the school are all still acceptable, but very popular schools are “encouraged” to use lotteries, as some academies in Britain and charter schools in America now do. They are also urged to consider “fair banding”—working out what mix of abilities their area provides, getting children to take an entrance exam, and then admitting representative numbers from each level of ability.

The admissions code was a sop to left-wingers who hate the government's broader reforms to free schools from the control of councils, fearing that more segregation will result. Both the code and the Brighton row confirm a depressing aspect of the debate over school choice and standards: an obsession with sharing out places at the best schools rather than creating more of them.

Prospective winners in Brighton are as elated as the losers are despondent. They now have a chance to send their children to schools that they could not previously aspire to. That puts those schools on their mettle: they must prove that it was their teaching and facilities that won good grades, not their middle-class pupils. If they fail, expect to see more children in Brighton going private.

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Bagehot

Ming's reasons to be cheerful

Mar 1st 2007
From The Economist print edition

Steve O'Brien

After the roughest of starts, things no longer look quite so dire for Sir Menzies Campbell

NOBODY can say that Sir Menzies Campbell has had an easy first year as leader of his party. As poisoned chalices go, the leadership of the Liberal Democrats 12 months ago resembled something rustled up by Lucrezia Borgia on one of her more vengeful days. Yet this weekend many of the Lib Dems gathering in Harrogate for their spring conference sense that they may be closer to real power than at any time in living memory.

When Sir Menzies (or Ming, as he prefers to be known) took over, the Lib Dems were reeling from two months of public self-destruction. Their previous leader, the popular but chaotic Charles Kennedy, had been pushed out by exasperated colleagues after belatedly confessing that he was an alcoholic. Mr Kennedy's supporters blamed Sir Menzies for planning the coup, unfairly dubbing him “Ming the Merciless”.

After revelations about their private lives undermined two contenders, Sir Menzies, supported by the party establishment, won less convincingly than expected against the relatively unknown Chris Huhne. During the campaign, his stately manner and at times slightly tremulous voice had made him seem old for his 64 years. He was also clearly uncomfortable dealing with domestic policy after a long period of specialising in foreign affairs.

Nor did things immediately improve. At the weekly House of Commons bear-pit of prime minister's questions (PMQs) Sir Menzies was inept, his notes grasped in visibly shaking hands. Comparisons with the assured performances of the much younger Tory leader, David Cameron, were painful, as were bumbling attempts by Sir Menzies to suggest a familiarity with popular culture that had come more naturally to his predecessor, “Chatshow Charlie”. A hundred days into his leadership, Sir Menzies cut a wretched figure.

Since late summer, however, things have slowly got better. Helped by the fact that nobody in his right mind could contemplate the purgatory of another leadership contest before the next election, the Lib Dems put on a decent show of unity at their party conference in September. They also managed to win some positive coverage for the “green-tax switch” that allowed them to drop a damaging commitment to raising the upper rate of income tax to 50% in favour of environment-friendly taxes. With parliament's

return after the long recess, Sir Menzies no longer looked quite so out of his depth at PMQs.

Over the past few months he has also been lucky. There is now rather less interest in his shortcomings than in those of Gordon Brown, while Tony Blair's long goodbye has been dominated by foreign policy—in particular, by the attempts on both sides of the Atlantic to find a way out of the Iraq morass. That has played to Sir Menzies's strengths and reminded voters that the Lib Dems were the only major party to oppose the war.

In January, egged on by some of his colleagues, Sir Menzies took the risk of calling for British forces to quit Iraq by October. Although he earned some (deserved) criticism for advocating a timetable that owed more to electoral populism than to concern for Britain's responsibilities, it won headlines. When Mr Blair announced last week the first phase of a withdrawal of the army from Basra, Sir Menzies was able to claim, somewhat speciously, that even the government now accepted his argument that there was nothing left for British troops usefully to do in Iraq.

Crucially for Sir Menzies, his party's performance in the opinion polls has been resilient enough to prevent any panic in the ranks. Given Mr Cameron's grab for traditional Lib Dem voters on the environment, civil liberties and localism, the party's poll rating, hovering around 20%, has been impressive. Senior Lib Dems claim to be delighted that Mr Cameron has worked so hard to put climate change on the agenda. They point to polling data that suggests voters still think the Lib Dems are easily the greenest of the mainstream parties. The more salient environmental issues become, they argue, the better the Lib Dems should do. And, vitally, the topic provides an alternative to Iraq, which may well be stale by the next election.

More than anything, however, Lib Dem morale is being sustained by the real possibility that the next election will result in a hung parliament. This week Sir Menzies surprised colleagues by revealing that the party had begun work on its negotiating strategy in case the election went that way. Sir Menzies has asked Paul Burstow, his chief whip, to examine the conventions on coalition discussions, which were last used in February 1974.

Unfortunately, no primer can tell Sir Menzies what he should do in what is likely to be a fluid situation. Even if Labour ends up with the largest number of seats it could still have a significantly lower share of the vote than the Tories, thanks to the quirks of the electoral system. Supporting it in exchange for a promise to introduce proportional representation, which benefits third parties, would look opportunistic. But throwing their weight to the Tories, while extracting little in return from Mr Cameron, would strike left-leaning Lib Dem activists as a betrayal of principle.

Patiently does it

That suggests the Lib Dems need one of two things to happen if they are to realise their goal of voting reform. Mr Brown might abandon his usual caution and announce—well before the election—his intention to bring in some form of PR as part of a wider package of constitutional modernisation.

But if, as is more likely, Mr Brown stays true to form and does nothing, Sir Menzies will have to take a punt that a second, quickly held, election would also result in a hung parliament. That has never happened before, but it just might create the conditions for getting the kind of deal his party could accept. It would also change British politics for ever. Sir Menzies can't help looking old, but what he must not do is give the impression that he is in too much of a hurry.

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Philanthropy

All shall have prizes

Mar 1st 2007 | NEW YORK
From The Economist print edition

Will a boom in philanthropic prize-giving change the world?

Corbis

TYCOONS gathering this weekend at Google's Silicon Valley headquarters will be giving money away, not trying to make more. Larry Page, one of the search firm's founders and, with a personal fortune estimated at over $14 billion, one of the world's richest 33-year-olds, is holding a fundraiser for one of his favourite charitable causes, the X Prize Foundation. The foundation is a force behind one of the most intriguing trends in philanthropy: promoting change by offering prizes.

It has worked before. The chronometer was invented to win an 18th-century British government prize. Charles Lindbergh flew the Atlantic to win $25,000 offered by Raymond Orteig, a hotelier. That inspired Peter Diamandis, the X Prize's creator, to offer $10m for the first private space flight, won in 2004 by SpaceShipOne.

In October the foundation launched its second prize, for genomics: $10m to the first inventor able to sequence 100 human genomes in ten days. In the same month Mo Ibrahim, a Sudanese mobile-phone entrepreneur, endowed an annual prize of $5m plus $200,000 a year for life for former African leaders reckoned to have governed well. Last month a British entrepreneur, Sir Richard Branson, launched the Virgin Earth Challenge, offering $25m to the inventor of a commercially and environmentally viable method of removing greenhouse gases from the atmosphere.

The Rockefeller Foundation has recently formed a partnership with InnoCentive, an entrepreneurial website, to offer financial rewards to people who solve specific social challenges posted on the site. The $1.5 billion Advance Market Commitments, recently put up by a group of rich states and the Bill and Melinda Gates Foundation to stimulate the production of vaccines, is a prize of sorts.

And if this weekend's event goes well, the X Prize Foundation plans to add to the boom by announcing a further ten prizes worth $200m over the next five years, in areas ranging from space and medicine (again) to education, energy and entrepreneurship. This spring, a further X Prize for the creator of a super-efficient car is likely.

Matthew Leerberg of Duke University, points out* that prizes are more commonly based on recognition of

past achievement (such as the Nobel awards), or promote awareness of causes favoured by the donor. “Incentivising” prizes, by contrast, stimulate achievement of specific goals. That has big attractions for businesslike philanthropists such as Mr Page. This new generation of donors believes that traditional philanthropy is hugely inefficient. On past experience, Dr Diamandis reckons that a prize means “ten to 40 times the amount of money gets spent”. Transatlantic fliers spent a combined $400,000 to win $25,000 from Mr Orteig; the 26 teams competing for the $10m spaceflight prize spent $100m.

Dr Diamandis says Mr Page's fundraising efforts offer even greater leverage: “Larry says that if he were to give to a university, he'd get about 50 cents on the dollar of value, maybe $2 if there are matching funds. But he gets ten-times leverage by launching a prize, and 100-times leverage by supporting a prize-giving organisation.” Prizes may also stimulate those whom old-style grant-making processes fail to reach, such as people outside mainstream research institutions and corporate life.

It can go wrong: prizes, such as that for honest government in Africa, may be too small, given other incentives. The criteria need to be clear and sensible—easier in science than in woollier areas such as social policy. The efficiency of a car engine can be defined in terms of a miles-per-gallon equivalent. But, as the X Prize Foundation may soon discover, coming up with a clear, testable and useful challenge in, say, education is tricky. Developing rules for such tricky prizes is one reason why the foundation needs $50m for its running costs, which will support a staff of 40 “prize experts” who will identify suitable prizes, write the rules and try to generate public excitement.

Even clear rules and a big prize may not deliver the desired result. From 1994 to 1999 the Rockefeller Foundation offered a $1m prize for a cheap, reliable test for sexually transmitted diseases. The offer expired without being claimed. Sir Richard describes the chances of the Virgin Earth Challenge being won as “less likely than likely”. And yet, he says, if the prize is won, “It will be the happiest day of my life, the best cheque I've ever written.”

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*“Incentivising prizes: how foundations can utilise prizes to generate solutions to the most intractable social problems”. A working paper by Matthew Leerberg for the Duke University Foundation Research Program.

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Divorce

For richer and poorer

Mar 1st 2007
From The Economist print edition

Rich people with wobbly marriages need to think hard about where they live

See you in court
A globetrotter's guide to divorce

Jurisdiction	England & Wales	New York	Germany	France
Pre-nuptial agreement	Rare, non-binding but can influence judge	Increasingly common among older and richer couples, normally binding*	Common, normally binding	Common, binding
Accrued assets	Judge's discretion, based on "equality and fairness"	Judge's discretion, presumption of "equitable share"	50-50	Usually 50-50
Pre-marriage assets	Usually included	Excluded†	Excluded†	Usually excluded
Maintenance‡	Common, and often lifelong	When needed to maintain marital standard of living	Limited	Normally limited to eight years
Share of future earnings	For super-rich, sometimes	Based on contribution to marriage	No	No
Time and money	Slowish and costly	Quick and costly	Quick and cheap	Slow and cheap
Adultery and other misconduct	Usually no effect on cash outcome	Ignored§	Ignored§	Relevant
Friendliness rating**	••	•	••••	•••

*Except where fraud, duress or non-disclosure can be proved †Unless mingled or actively managed during marriage
‡Called alimony in some jurisdictions §Barring financial recklessness **For a non-adulterous high-earning man hoping for speedy exit from ten-year marriage concluded without pre-nuptial agreement

Source: *The Economist*

MARRIAGE may be about love, but divorce is a business. For global couples—born in different countries, married in a third, now working somewhere else and with children, pensions and other assets sprinkled over the world—a contested divorce is bliss for lawyers and a nightmare for others.

Divorce laws vary wildly, from countries (such as Malta) that still forbid it to Islamic states where—for the husband, at least—it may be obtained in minutes. Rules on the division of property and future financial obligations vary hugely too. France expects the poorer party, usually the wife, to start fending for herself almost immediately; England and some American states insist on lifelong support. Some systems look only at the "acquest" (assets built during the marriage); others count the lot. A few, like Austria, still link cash to blame (eg, for adultery). Japan offers a temptingly quick cheap break, but—for foreigners—little or no enforceable contact with the kids thereafter, notes Jeremy Morley, a New York-based "international divorce strategist". Other places may be mum-friendly when it comes to money but dad-friendly on child custody.

The European Union (home to 875,000 divorces a year, of which a fifth are "international") is trying to tidy up its divorce laws. A reform in 2001 called Brussels II tried to stop forum shopping, in which each party sought the most favourable jurisdiction, by ruling that the first court to be approached decides the divorce. That worked—but at the cost of encouraging trigger-happy spouses to kill troubled marriages quickly, rather than trying to patch them up. This, says David Hodson, a specialist in international divorce law, favours the "wealthier, more aggressive, more unscrupulous party". It goes against the general trend towards counselling, mediation and out-of-court settlement.

An EU measure called Rome III, now under negotiation and pencilled in to come into force in 2008, tries to ensure that the marriage is ended by the law that has governed it most closely. It may be easy for a Dutch court to apply Belgian law when dealing with the uncontested divorce of a Belgian couple, but less so for a Spanish court to apply Polish rules, let alone Iranian or Indonesian, and especially not when the

divorce is contested.

Such snags make Rome III “laughably idiotic—a recipe for increasing costs”, according to John Cornwell, a London lawyer. Britain and Ireland say they will opt out. That, says Mr Hodson, will give a further edge to London. Since a judgment in 2000 entrenched the principle of “equality” in division of marital assets, England, home to hundreds of thousands of expatriates, has become a “Mecca for wives”, says Louise Spitz of Manches, a London law firm. David Truex, who runs a specialist international divorce outfit, reckons that at least a fifth of divorce cases registered in London's higher courts now have an international element.

That trend is accelerating as more and more foreign professionals move to Britain: the latest bunch of customers, says Ms Spitz, are from the former Soviet Union: hugely wealthy and based in London for political reasons. That may protect their assets from being grabbed by the Kremlin; but it does not shield them from their wives. English courts are slowly edging towards the principle (already entrenched in some American states) that the wife's efforts during the marriage to boost her husband's earning power must be compensated, meaning that future income, as well as current assets, must be shared.

Compared with most other jurisdictions, English courts are not just wife-friendly but sharp-toothed and clear-sighted. A case to be heard next week by the Court of Appeal will determine the fate of the huge offshore fortune of John Charman, a financier. A lower court ruled that his wife was entitled to her share of the assets held in a Bermuda trust. Rich couples with troubled marriages and a London connection are watching with a mixture of glee and foreboding.

For the typical global couple, such high-profile, big-money cases matter less than the three basic (and deeply unromantic factors) in marriage planning. According to Mr Truex, a rich man should choose his bride from a country with a stingy divorce law, such as Sweden or France, and marry her there. Second, he should draw up a pre-nuptial agreement. These are binding in many countries and have begun to count even in England. Third, once divorce looms, a wife may want to move to England or America (but should avoid no-alimony states such as Florida); for husbands, staying in continental Europe is wise.

Outside Europe, the country—or American state—deemed the most “appropriate” in terms of the couple's family and business connections will normally get to hear the case. But here too unilateral action may be decisive. When Earl Spencer, brother of Princess Diana, divorced his first wife he surprised her by issuing proceedings in South Africa where they were then living. In England, where they had been domiciled, she might have got a better deal. She ended up suing her lawyers.

The lesson for couples? How you live may determine the length and happiness of your marriage. Where you live is likely to determine how it ends.

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Marriage

Trials of trailing spouses

Mar 1st 2007
From The Economist print edition

Old-school diplomats had loyal, long-suffering wives. Not any more

PROMISE, wrote the critic Cyril Connolly, has no more sombre enemy than “the pram in the hall”. The old curmudgeon was talking about the smothering effects of parental duty on creative lives. But diplomats, too, increasingly find a globe-hopping career hard to combine with a traditional family life.

The changes in the American diplomatic service are the most dramatic. Every summer, the State Department rotates some 3,000 overseas positions, slightly under half its total stock of jobs abroad. In the summer of 2001, just before the September 11th attacks, some 200 positions were “unaccompanied”: classed as too dangerous for children, and in some cases even spouses. That has risen fourfold, to around 800. Many are one-year postings in Iraq and Afghanistan, which need fresh volunteers each summer.

American diplomats worry about filling such stressful, marriage-imperilling positions. Top administrators at the State Department say they may have to resort to “directed” (compulsory) postings, notably for Provincial Reconstruction Teams working in the far corners of Iraq.

In private, the grumbles are more pointed. War-weary diplomats mutter that promotions are no longer reserved for the best and the brightest, but instead are used as rewards for those with the right “expeditionary” mentality, to use the term favoured by the Secretary of State, Condoleezza Rice. Singletons, whether unmarried or divorced, are able to sign up for the roughest, toughest unaccompanied positions. This puts them at a huge advantage, their married colleagues complain. Thanks to all those promotions today, adventurous loners will end up running tomorrow's State Department.

In Europe, it is money, not safety, that is corroding traditional diplomatic marriage, and thus the home-based hospitality that oils the wheels of statecraft. Low-cost airlines and fast international trains mean many diplomats in Europe can commute home for weekends with families and wives who have stayed put rather than jettison careers, mortgages or schools. At the French mission to the European Union in Brussels, one in three senior diplomats commutes home most weekends. The commuters include the French ambassador to the EU, a thrifty fellow who recently swapped the cavernous nine-bedroomed official residence for a flat near his office.

Any outfit that sends people overseas has to worry about spouses. But diplomats don't get private-sector perks. Many governments have cut back allowances for their officials overseas. Meanwhile house prices in most capital cities have soared. That threatens the old bargain, in which over-qualified graduates tolerated low salaries in exchange for interesting work, and a lifestyle abroad of colonial ease.

A wife's private-sector earnings, once pocket-money, are now a vital part of the family budget. “It is not just that she wants to continue her career,” explains a European diplomat. “She is probably earning three times as much as you, and without her, you can forget keeping a foothold on the property ladder at home.”

The trend extends to Asia too. Junior Chinese diplomats used to be sent to serve abroad alone, partly to keep their families as hostages against defections. The rules changed in the mid-1990s. But half of all married Chinese diplomats still leave their families at home—though now for less exotic reasons, such as schools.

Some are seeking radical solutions. The Swedes have begun forging bilateral pacts with other nations to allow diplomatic spouses to seek outside employment (many countries traditionally banned embassy

spouses from working, partly because it is tricky doing business with people who hold diplomatic immunity). The wife of America's ambassador to Greece does not sit idly at home: she is America's ambassador to Albania, next door. Until last month, another married couple served as British ambassadors to Austria and Slovakia, respectively. The acting British ambassador to Slovakia is now actually two people: a husband and wife who share the job on a four-month rotation.

Single gay diplomats are no longer disadvantaged by spouselessness. But those wanting to take their legally recognised partners with them face a lottery. The Netherlands gives same-sex partners full diplomatic privileges. America acknowledges them neither among its own diplomats nor in foreign officials posted there. A French diplomat in New York failed to secure a visa for his gay partner, despite their marriage-like *pacte civil*. His partner remained in Paris; he is now yet another commuter, this time across the Atlantic.

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Goodbye to the blues

Mar 1st 2007
From The Economist print edition

Corbis

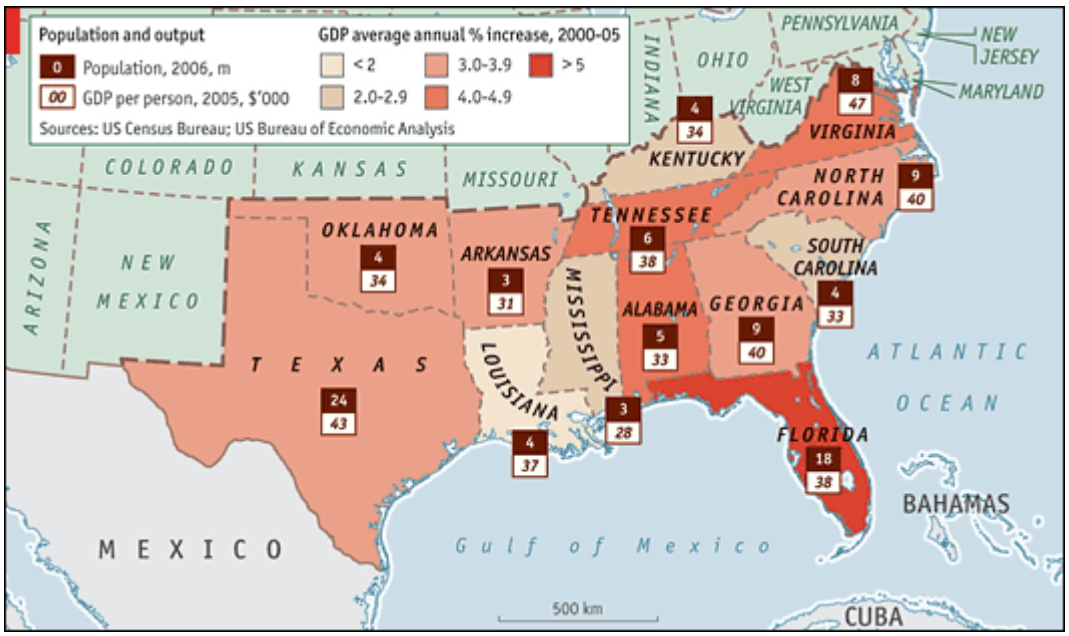
The American South, once notorious for violence, poverty and racism, is now pleasant and prosperous, says Robert Guest (interviewed here). But it still has some catching up to do

IN 1943 Achie Matthews quit sharecropping and headed north to seek a better life. He found it. His wages in a steel factory in Ohio were fatter and more predictable than the pittance he had earned coaxing cotton out of Mississippi's soil. And although race relations in Ohio were hardly ideal, he was at least free of the daily indignities and the pervasive threat of violence that made life so cruel for a black man in the segregated South.

His story was typical. Seventy years ago the average income in America's South was $314 a year. In current dollars that would be about $4,400, meaning that southerners then were about as rich as the people of Botswana are today. Half the workers in the South in the 1930s were farmers, and half of those did not own the land they farmed. Some paid rent. Others, like Matthews, gave their landlord a share of their crop. The average landless cotton farmer made $73 a year ($1,023 today). Small wonder that by the late 1930s a quarter of those born in the southern countryside—black and white—had emigrated to the north or to southern cities.

Matthews lived and worked in Ohio for the rest of his life and died, much lamented, last year. During his lifetime the South was transformed. A political system based on fear and division was replaced by multiracial democracy. Southerners no longer subsist by sweating in fields, but by making cars, pampering tourists or flying urgent packages around the world.

In 1937 southern incomes were only half the American average; today they are 91% of it. If you allow for the lower cost of living in the South, the gap all but vanishes. Since the 1960s, more whites have moved to the South than have left it. Since the 1970s, the same has been true for African-Americans. The South's share of America's population has risen from just over a quarter in 1960 to a third today, making it the most populous American region. (This special report defines “the South” as the 11 states of the old Confederacy plus Kentucky and Oklahoma; see map.)



Last May, Matthews's granddaughter, Katrice Mines, joined the southward surge of young black professionals and moved to Atlanta, Georgia. Over a lunch of chicken with peaches, crushed walnuts and snap peas, Ms Mines admits that, before she moved, she was somewhat afraid of the South. But she quickly found a job, as an associate editor of the *Atlanta Tribune*, a black business magazine. Up north in Sandusky, Ohio, she had felt her talents were untapped. Down South, she feels more optimistic. Atlanta is majority-black. It is also rich, with more *Fortune* 500 headquarters than any other American city bar New York and Houston. “There are so many African-Americans in powerful positions,” says Ms Mines. “You can get your foot in the door.”

The new New South

It is old hat to talk of the “New South”. The phrase dates back at least to 1886, and the writer Joel Garreau counts “at least six major, widely hailed, New Souths since Lee's surrender to Grant, not to mention the minor, trial-balloon, New Souths that the sad surplus of New Southern journalists float from time to time (everybody's got to eat).” But repetition does not make a label false. People talk about the New South because the region really has changed, dramatically and repeatedly, in a startlingly short space of time.

Before the civil war the southern economy depended on slavery. This was not only inhuman; it was also inefficient. The slave-owners prospered, to be sure. Their workers did not have to be paid, and their assets multiplied by having children. But only a small minority of southern whites owned slaves, and the system hurt nearly everyone else. Blacks, obviously, were the principal victims. Unskilled whites suffered, too, since unpaid black labour depressed their wages. And slavery helped keep the South backward. The planters, with all their capital tied up in slaves, had little incentive to invest in labour-saving technology. And with few modern industries to man, the southern ruling class saw little point in mass education.

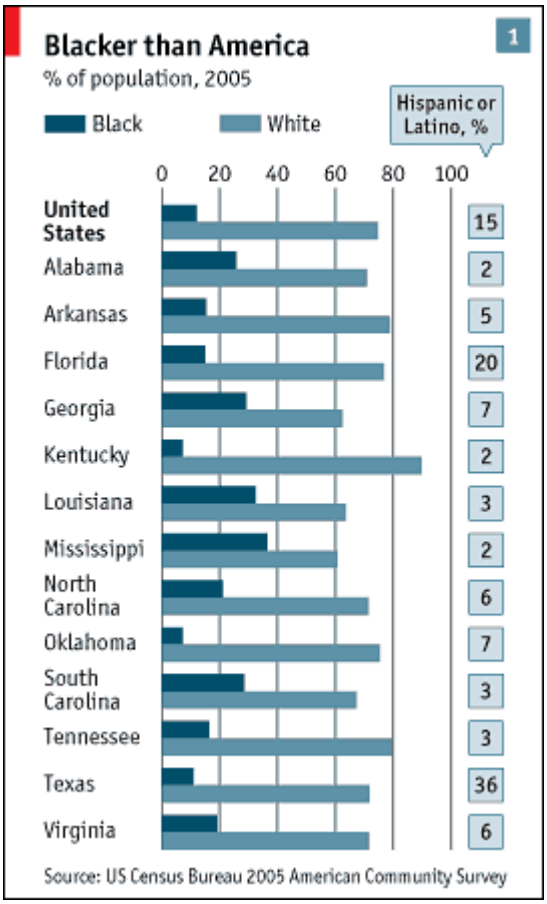
Then the civil war wiped out two-thirds of the South's wealth. Partly, this was for the happy reason that freed slaves were deemed to be human beings, not chattels. But the Unionist troops also burned several cities to cinders, ransacked farms and tore up most of the South's railways, tying some stretches of track around trees to form “Sherman bow ties”, named after a northern general, William Sherman. Roughly a quarter of able-bodied male southerners were killed or wounded. In the first year of peace, Mississippi spent a fifth of its state budget on artificial limbs.

During the “Reconstruction” period of 1865-77 the South was occupied by northern troops. This humiliation—something no other part of America has tasted—still rankles for some white southerners. For blacks it was a blessing: the occupying northern army upheld their right to vote. But when that army withdrew, they lost it again. During the “Jim Crow” era, southern Democrats ruthlessly reasserted white supremacy. Blacks were barred from voting, and their disfranchisement allowed white politicians to keep white schools white and black schools shabby. Any black who protested could be lynched.

In short, for nearly all of its recorded history the South has been ruled by violence, or the threat of it. From 1619 (when the first shackled African landed in Virginia) until 1865, slaves had to work or be

whipped. From the end of Reconstruction until the triumph of the civil-rights movement in the 1960s, southern blacks who tried to vote risked a beating or worse. It took a war to dismantle the first system. The second was swept away almost without bloodshed, by peaceful protesters whose televised encounters with thuggish policemen shamed the federal government into intervening once more.

The lesson of southern history is that non-violence works, both in that narrow sense and in a broader one. An economic system based on free labour and free exchange is far more dynamic and adaptable than a system based on coercion. And a political system that heeds all voices is far more stable than one that heeds some and seeks to silence the rest.



For those whose freshest impressions come from news coverage of Hurricane Katrina in 2005, it may seem odd to describe the South as peaceful, pleasant and prosperous. Surely the storm that hit New Orleans revealed a society plagued with poverty and teetering on the edge of barbarism? No. Granted, there was a lot of looting, but reports of widespread murder and even cannibalism were hysterical and false. And pundits who likened the flood's aftermath to a third-world disaster cannot have seen many of those.

New Orleans, for all its *joie de vivre*, is one of the worst-run cities in America. For the South as a whole, the picture is much brighter. Indeed, the question is no longer “will the South rise again?” but “will it one day overtake the north?” Mark Sanford, the governor of South Carolina, does not hesitate before answering “yes”. The South, he says, has low taxes, weak unions, business-friendly state governments, sunshine and a quality of life that will increasingly attract people who can work anywhere with a broadband connection.

The South's share of American GDP has risen from 22% in 1963 to 31% today. Its share of America's population is still growing, but income per head, which peaked at nearly 96% of the national norm in 1981, has struggled to regain that proportion. Does this matter? As Georgia's governor, Sonny Perdue, points out, it is not a race. There are worse fates than remaining nine-tenths as rich as America, a country that is richer and grows faster than any other large rich country. There is even an argument that growth, by attracting so many newcomers to the South, threatens the region's unique charm. Walker Hodges, who manages a trucking firm in Wilson, North Carolina, laments that the “Tom Sawyer adventures” of his youth in the 1950s are now impossible, because the deserted rivers where he enjoyed them now have thousands of boats on them.

On the other hand, faster economic growth could solve many of the South's lingering problems: the large remaining tracts of relative poverty; the 19% of southerners who lack health insurance; perhaps even the South's high rate of violent crime. Greater prosperity translates into more choices for individuals—no small boon in a culture that so fervently celebrates cussed individualism. Most southerners would be happy to see more economic growth. The biggest obstacle, many believe, is the poor state of southern schools, though even those are improving.

This special report will describe how success has changed the South—economically, politically and culturally. It will offer food for thought about America's most distinctive region (and some brief thoughts on its food). It will examine the changing (but undiminished) role of religion in southern society. But it will start with the most explosive subject: the partially cleared minefield of race.

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The central question

Mar 1st 2007
From The Economist print edition

Race relations are no longer black and white

UNTIL recently, Edgar Ray Killen, a retired Baptist preacher, sat each day in a café in the centre of Philadelphia, Mississippi. None of the young folk paid him much heed, but the older ones knew who he was. Back in 1964, as head of the local Ku Klux Klan, Mr Killen orchestrated the murder of three young civil-rights workers. The three—one black Mississippian and two Jews from New York—were on their way to investigate a church-burning. They were stopped for speeding, then released. A mob of Klansmen followed them, forced them off the road and shot them dead. James Chaney, the only black, was beaten before he was murdered.

The crime provoked outrage and at least three movies. Seven men were found guilty of "civil-rights violations" in 1967, but none served more than a few years in jail. Mr Killen was acquitted because one juror said she could not convict a preacher. But then, in 2005, he was re-arrested, returned to court and found guilty of manslaughter. He will probably die in jail.

Corbis

The way things were

"The trial showed the outside world we've changed," says Leroy Clemons, the head of the local branch of the National Association for the Advancement of Coloured People (NAACP). Race relations in Philadelphia are "not perfect, but good", he says. "I coach softball. I watch black and white kids interact. You can see they don't carry the baggage from the past." In the workplace Mr Clemons believes that skin colour is no longer an issue. As the local NAACP chief, he often hears allegations of racism, but many turn out to be minor or groundless.

Local whites are equally upbeat. "The trial helped to clear the air," says David Vowell, the head of a group that promotes local business and tourism. Mr Vowell says he doubts that Philadelphia will attract thousands of new investors overnight, but he expects people to view the town more favourably. Already, tourists come for an "African-American Heritage Driving Tour"—ie, to visit the scenes of the crime. Not as many as flock to a nearby gambling resort, but every visitor helps.

William Faulkner, a novelist from Mississippi, once wrote: "The past is never dead. It's not even past." The South's challenge since the end of segregation has been to prove him wrong. By and large, it has succeeded.

In 1942, 98% of southern whites told pollsters that blacks and whites should attend separate schools, and 96% favoured segregated buses. By 1963, when the civil-rights movement was in full voice, those numbers had fallen to 69% and 48% respectively. Today, open support for segregation is so rare that pollsters no longer bother to ask the question.

On a yet more sensitive subject—inter-racial romance—opinions have shifted nearly as dramatically. Before the second world war, marriages between blacks and whites were outlawed not only in the South but also in nearly every non-southern state with a sizeable black population. No pollster bothered to ask if people approved of such matches until 1958, when a mere 4% of white Americans said they did.

One of the paramount goals of segregation was to keep black men away from white women. If they dined or swam or danced together, southern white men feared, they were on a slippery slope towards sleeping together. Emmett Till, a black boy from Chicago who, unfamiliar with southern taboos, wolf-whistled a white woman in Mississippi in 1955, was beaten to death for it.

A good place to be black

And yet by 2003, 59% of white southerners were telling pollsters that it was “all right for blacks and whites to date”. That number has doubled since 1988, as the older generation has mellowed or died. And though a large minority still disapproves, they are mostly too polite to say anything, says Susan Glisson, the (white) director of the Institute for Racial Reconciliation at the University of Mississippi. In six and a half years of dating a black man, she says, she was shouted at twice, both times by white men. It is horrible to hear your boyfriend addressed as “nigger” or to be told you will have a “yellow” baby, but it did not destroy the relationship.

What people tell pollsters is an imperfect guide to what they think. Some lie. Until the 1960s southern whites felt pressure to support segregation even if they did not wholeheartedly believe in it. Now the pressure is the other way. That is significant. If it is socially unacceptable to express racist views, that is progress. And there is plenty of evidence to suggest that racism really has diminished.

For a start, blacks themselves think so. Perhaps surprisingly, the Pew Research Center found in 2003 that southern blacks were more likely than non-southern ones (by 31% to 20%) to say that “discrimination against blacks today is rare”. In the 1980s southern blacks were no more optimistic on this score than northerners.

Income is another yardstick. The median black household in the South earns 99% of the black American norm. Allowing for the lower cost of living, southern blacks are better off materially.

In the South, as in the north, factors other than racism affect an African-American's life chances far more. Mr Clemons cites two: education and financial savvy. “I see boys who can't read a simple sentence. They think it doesn't matter; that they'll be pro athletes. I say: ‘How can you make it if you can't even read a contract?’” He also frets that too many young people think a loan is free money, and spend years servicing debts incurred for frivolous purposes.

The best evidence that the South is a tolerable place to be black is that three times as many blacks move there each year as leave it. Every other American region, in fact, is losing blacks to the South. That does not mean that southern racism is dead. Far from it. Though blacks and whites rub along amicably enough in the workplace, they still mostly live, socialise and worship separately. If they have friends of another race, it is often because they have been thrown together, as in the army, and have to get along. College, alas, is a less effective melting-pot. Fraternities with only black or only white members are common. Dr Glisson laments that her black and white students sit separately in class unless specifically told not to.

Southern politics are far from colour-blind, but more blacks hold elected office in the South than in any other region. The Joint Center for Political and Economic Studies, a think-tank, says that the South was home to only a slim majority of American blacks but to two-thirds of the country's 9,101 black elected officials in 2001. Mississippi alone had 54 black mayors.

Electoral maps in the South are now drawn to maximise the number of majority-black districts, so most black southerners elected to Congress rely largely on black votes. But they struggle to capture enough white votes to win statewide office: the South currently boasts no black governors or United States senators. The most prominent southern black politician, the Alabama-born secretary of state, Condoleezza Rice, was appointed.

Given the South's history, its politicians have a clear duty not to stir up racial discord to court easy votes. They do not always resist the temptation. Spats over whether or not to honour the Confederate flag crop up with dreary regularity. And closely fought elections sometimes bring out the worst even in sober politicians.

For example, Shirley Franklin, Andrew Young and John Lewis, three respected black Georgia Democrats, went on radio just before last year's mid-term election saying things like: “You think fighting off dogs and water hoses in the 60s was bad? Imagine if we sit idly by and let the right-wing Republicans take control of the Fulton County Commission.” Given that Mr Lewis really was beaten up during a civil-rights march in the 1960s, he might have shown more of a sense of proportion.

A Senate race in Tennessee last year exposed more complex racial currents. Harold Ford, a prodigiously talented black Democrat, looked as though he might capture a safe Republican seat. The national Republican Party ran an advertisement in which a pretty blonde gushed: “I met Harold at the Playboy

party!” and which ended with her cooing: “Harold, call me.” Democrats saw this as a racist appeal to white men who hate black men dating white women. Republicans retorted that it was perfectly fair to poke fun at Mr Ford's bachelor lifestyle when he spent the campaign talking up his Christian faith.

New colour combinations

Mr Ford lost, but not before inadvertently illustrating that southern politics are no longer black and white. He lambasted his white opponent, Bob Corker, for allegedly employing illegal aliens. His overt message was that people should obey the law. But he was also playing on the alarm that many southerners, black and white, feel at the recent influx of Hispanics into their neighbourhoods.

Texas and Florida have had large Hispanic populations for a long time. But for other southern states the sudden arrival of Spanish-speaking migrants has come as a shock. Six southern states—North Carolina, Arkansas, Georgia, Tennessee, South Carolina and Alabama—saw their Hispanic populations swell by more than 200% in the 1990s. In several counties the increase was more than 1,000%. The newcomers are mostly young men, most of whom trek up from Mexico to work illegally as builders, waiters, fruit-pickers, hog-slaughterers or in any other occupation the locals deem too tough or ill-paid.

Illegal immigrants pay few taxes but place a strain on public services. In the six states mentioned above, the proportion of primary and secondary school pupils who are Hispanic is expected to hit 10% this year, up from next to nothing in 1990. In some areas, schools have switched from all English-speaking to majority Spanish-speaking in only a few years, a change some parents find nearly as disconcerting as their parents found desegregation. Mr Ford was one of many southern politicians to promise a firm stand against illegal immigration during the campaign. But such promises have usually been broken. Raids on employers who hire illegals are rare, and prosecutions even rarer.

Maritza Pichon, head of the Latin American Association in Atlanta, reckons there are a million Hispanics in Georgia, twice the official estimate and more than a tenth of the total population. They started coming during the construction boom that preceded the Olympics in 1996. Many stayed. Ms Pichon admits that their children place a burden on schools. On the other hand, Hispanic workers provide Georgians with cheaper houses, affordable nursing and countless other services. Besides their work ethic, they are also devout Christians, she says, so they will assimilate well once they learn English, as immigrants always seem to do.

In the future, says Charles Wilson, director of the Center for the Study of Southern Culture at the University of Mississippi, the South “will be home to many people who do not share the burden of southern history. What does the civil war mean to a Mexican?” Will there be new ethnic alliances? Or, he asks, will politics in the South become class-based?

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Doing it by the book

Mar 1st 2007
From The Economist print edition

Protestantism still rules, but other denominations are flowering

FOR a taste of the old South, you can attend a civil war battle re-enactment. Or you can visit Bob Jones University in Greenville, South Carolina. This fundamentalist school—catchphrase: “Brains are no substitute for God”—forbade inter-racial dating among its students until 2000. The place is easy to mock, and people often do. The Bob Jones rule book bans all the things that other students think make college fun: booze, cigarettes, fornication. Mark Lopez, one of the 4,200 smartly dressed and unfailingly polite students at Bob Jones, says he applied there because he wanted to study “conservative Christian music”: that is, old-fashioned music with organs and the like, not Christian rock (too worldly).

As a private university that accepts no federal funds, Bob Jones was free to cling to its old southern traditions longer than most. Both the founder and his son, Bob Jones junior, were committed segregationists. Like many southern Christians, they had convinced themselves that it was God's will. But times change. By 2000, when George W. Bush visited, the university was widely reviled. Bob Jones III, the founder's grandson, calmed the furore by revoking the inter-racial dating ban. He told an interviewer: “We can't point to a verse in the Bible that says you shouldn't date or marry inter-racial[ly].”

Eyevine

Holler, and they'll follow

During slavery and segregation most southern churches blessed the existing order. Now they are sorry they did. This about-face was traumatic for many, but easy to justify scripturally. Attempts to find biblical backing for separate lunch counters always required a bit of reading between the lines, whereas “Love thy neighbour as thyself” is unambiguous.

So as the South has become less racist, it has lost none of its religiosity. Nearly half of southerners believe the Bible is the literal word of God—twice the proportion in the north-east or the West. Such beliefs have political consequences. Southerners vote for politicians they judge devout. Their faith lends passion to national debates about abortion, homosexuality and bioethics. It affects foreign policy, too: some 56% of southerners think God gave Israel to the Jews.

Within the South, however, Christianity has been a force for reconciliation—and not only because the most persuasive civil-rights crusaders, such as Martin Luther King, were preachers. Charles Wilson of the University of Mississippi argues that religion helped the transition away from Jim Crow, “because it is a language shared by black and white, and because it gives whites a sense of security and continuity amid wrenching change.”

At the same time, says James Guth of Furman University in Greenville, there is a strong trend towards religious diversification in the South. Hispanic immigration has brought more Catholics. Fundamentalism has spread from rural areas to the affluent suburbs. Non-denominational megachurches, which caught on later in the South than elsewhere, are spreading fast, and tend to be more racially mixed than traditional ones.

Three miles (5km) from Bob Jones University, for example, is the Redemption World Outreach Center. It started in 1991, with a congregation of three. Now it has 8,000 members. Its “Apostle”, Ron Carpenter, is like many other southern preachers—charismatic and given to “hollering”. He is white, but his congregation is completely mixed. Black and white worshippers sit together, hug each other and shout “Now you're preaching!” at the good bits, all in harmony.

Those who wince at southern piety can always move north. Few do. In his book “Dixie Rising”, Peter Applebome quotes a liberal Yankee in Georgia: “It seems crazy listening to myself say this, but sometimes I think that a lot of the characteristics that come from some of this fundamentalist religious stuff that I hate also cause it to be so pleasant here.”

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The art of the possible

Mar 1st 2007
From The Economist print edition

Southern politics are a deep, complex shade of red

THE conventional wisdom about southern politics is that it all comes down to race. When the Democrats were the party of segregation, southern whites voted Democrat and blacks did not vote at all. From 1903 until 1961 the states of the old Confederacy elected no Republicans to the United States Senate. Not one. Then a Democratic president, Lyndon Johnson, signed the Civil Rights Act and the Voting Rights Act in 1964 and 1965. Unscrupulous Republicans saw an opportunity to woo disgruntled southern whites with coded racial appeals. Gradually the Democratic monopoly on power in the South was replaced by Republican dominance. In the presidential elections of 2000 and 2004, George Bush carried every southern state, even beating Al Gore on his home turf of Tennessee.

This explanation obscures as much as it illuminates. Race may colour many southerners' view of the world, but so do other considerations. Religion is one. Republicans are expert at wooing socially conservative Christians. The national Democratic Party is skilled at repelling them.

AP

Sanford and friends

Economics is another. In “The End of Southern Exceptionalism”, Byron Shafer and Richard Johnston, two political scientists, observe that southern whites voted Democratic for racial reasons until the 1960s, but thereafter split along class lines. As in the rest of America, better-off whites were more likely to vote Republican, poorer ones to vote Democrat or not at all. Black southerners, who are socially conservative but more inclined than whites to believe that government should give people a leg up, now fall solidly in the Democratic camp.

Southern white culture is very individualistic, says Merle Black, a professor of politics at Emory University. “Most voters make more than $30,000 a year. And that's about the level at which white southern voters start complaining about how much tax they pay.” Mr Black recalls workers in Texas in the 1960s earning $3 an hour and complaining loudly about the deductions from their pay packets. These are the kind of people who voted for Barry Goldwater, Ronald Reagan and Mr Bush, he says.

One of the fiercest southern budget hawks is Mark Sanford, the (Republican) governor of South Carolina. Facing an unconstitutional budget deficit in 2004, he vetoed 106 pork-barrel spending items in the state budget. The Republican-controlled state House overrode 105 of his vetoes, so he marched into the Capitol with a pair of piglets in his arms. The public loved the stunt. State senators restored some of the cuts, and the budget balanced.

Mr Sanford is thoughtful as well as fierce. He quotes Alexander Tytler's warning that a democracy can survive only until voters discover that they can vote themselves largesse out of the public treasury. “Empires can fall. We're not exempt,” he says. His sombre view of history explains why he tries to block pork of any kind. He even vetoed cash for the Special Olympics, arguing that government should not pick favourites among charities.

Many southerners, however, prefer the have-your-cake-and-eat-it approach to fiscal policy. “People here think they are overtaxed,” says Mr Black, but they “tend to take Medicare [government-funded health care for the elderly] and Social Security [public pensions] for granted.” In recent years, politics in Washington, DC, have been dominated by southern Republicans, with a Texan president, Senate majority leaders from Mississippi and Tennessee and a House majority leader from Texas. Yet federal spending has ballooned and nothing has been done to restrain the growth of entitlements that could bust the

budget when the baby-boomers retire.

A choice of new southern strategies

Both parties have a problem with the South. The Democrats' problem is that not many southerners vote for them. Even after the Democratic triumph at last year's mid-term elections, only five out of 26 southern members of the United States Senate and 57 of 141 southern House members are Democrats. The Republicans' problem is the opposite. There are so many southern Republicans in Congress that they pretty much call the shots in the national Republican Party, making it more socially conservative than many non-southerners can stomach. Southern Baptists applauded when Mr Bush vetoed federal funding for most stem-cell research, but voters in western swing states cringed.

The Republicans could tackle their problem by picking a presidential candidate who is either socially liberal by Republican standards, such as Rudy Giuliani, or conservative but quiet about it, such as John McCain, but that might depress turnout among the Republican faithful.

The Democrats' problem is more complex. Steve Jarding and Dave “Mudcat” Saunders, two Democratic strategists, urge their party to reach out to southern white males by fielding candidates who understand hunting, stock-car racing and country music and (more important) also sound Christian and unpatronising. It worked for Jimmy Carter and Bill Clinton. But Hillary Clinton may find it harder.

Another idea, espoused by Thomas Schaller in his book “Whistling Past Dixie”, is for the Democrats to ignore the South and try to build a majority in less reflexively hostile parts of the country. But winning without the South would require 73% of non-southern electoral-college votes. Mr Black thinks the Democrats should seek votes where they can, perhaps venturing out of their north-eastern stronghold to pick off Florida and Virginia.

In any case, with American politics so evenly divided, fears of the “Dixification of America”—that southerners will impose their God-fearing, low-tax ways on everyone else—are overblown. And the new Republican South will never be as politically monolithic as the old Democratic South, says Mr Black, because the Republicans let their opponents vote.

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It's the business

Mar 1st 2007
From The Economist print edition

Why the South is a great place to work

VISITING Disney World without your children is risky. What if they find out? Your happy home will become an inferno of tantrums and broken crockery. Nonetheless, gambling that five-year-olds do not read *The Economist* closely, your correspondent went to Orlando, strictly for research, on a warm day in January.

Corbis

Mesmerised by the Mouse

The park is overwhelming. The queue for the “Pirates of the Caribbean” ride is nearly an hour long, according to the helpful warning sign at the entrance. The yowl of the Yeti echoes from the newly completed Mount Everest. The crowds throng as densely as pilgrims in Mecca, only they do it all year round and in brighter shirts. People seem to like the place.

Walt Disney could have built his biggest theme park anywhere. He chose Florida. The weather is balmy, and when it gets too hot there are lots of pools to cool off in, says Meg Crofton, Walt Disney World's CEO. Florida also offers plenty of space to expand. Disney World, which was first carved out of wild woodland in 1971, has swollen to four parks covering 40 square miles (104 sq km) and employing 60,000 “cast members”. Contrary to the stereotype of rapid churn in the service sector, the average full-time employee sticks around for nine years.

Florida's business climate is sunny, too. The Milken Institute, a think-tank in California, compiles an index of “best-performing cities” in America, a composite measure of such things as job creation, wage growth and whether businesses are thriving. In the most recent index, six of the top ten metropolitan areas are in Florida. (Orlando-Kissimmee is sixth.) And 18 of the top 30 are in the South.

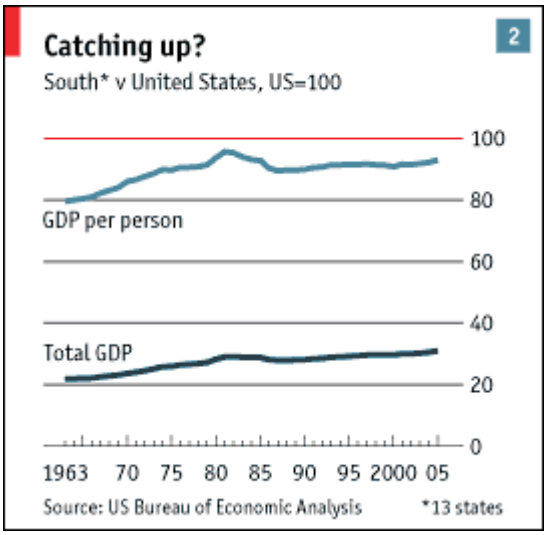
For a long time the South's weather got in the way of its development. Richard Pillsbury, a geography professor at Georgia State University, describes traditional life in the lowland South, a region stretching from northern Virginia down to the Gulf coast of Texas: “Smallish hardscrabble farms almost lost in the white heat of a sweltering summer sun as the owners and their help fought swarms of mosquitoes to plant, cultivate and harvest the meagre cotton crop for market.”

Then came air-conditioning. As it spread after the second world war, the South became suddenly more comfortable to live and work in. From the 1940s until the 1980s the region boomed. In his book “Old South, New South”, Gavin Wright lists four reasons why. Federal defence spending stimulated growth. Sunshine attracted skilled professionals. The South, having developed so little in the past, was a “clean slate”, without strong labour unions, entrenched bureaucracies, restrictive laws or outdated machinery.

Lastly, given how much catching up the South had to do, the potential returns were higher than in the north.

During the Jim Crow era, the South struck a “Devil's bargain” with the north, providing cheap white labour for northern-owned factories as the north turned a blind eye to segregation, says Jim Clinton, director of the Southern Growth Policies Board (SPGB), a think-tank. That strategy stopped working in the 1970s, as southern wages crept up towards the American norm. Now, with Chinese and Indian workers undercutting them by an order of magnitude, southerners must produce more or starve.

As any visitor can see, southerners are not starving (see article). The region's economy has grown by 31% since 1997, whereas America's has grown by a slightly more leisurely 28%. The number of jobs in the South has risen by a third since 1990, from 33m to 44m, whereas the number for the United States as a whole has risen by only a quarter.



Southerners have prospered in part by playing to their traditional strengths. The fame of southern hospitality has bolstered the region's hotel chains, such as Holiday Inn. That of southern cuisine helps local restaurants, such as Waffle House, Cracker Barrel and KFC. Arkansas-based Wal-Mart, the world's largest retailer, has kept costs low by refusing to recognise unions. And Coca-Cola owes at least some of its success to its southern origins.

Adding sparkle

The weather, again, has been crucial. In the late 19th century, hot southern summers hastened the invention of three fizzy drinks: Coke in Atlanta, Pepsi in North Carolina and Dr Pepper in Texas. All three were developed by pharmacists and sold from soda fountains. Southerners like sweet things, says Philip Mooney, Coke's chief archivist. And as the firm expanded, Atlanta proved a congenial base because it is a transport hub. “That's why the Union burned it to the ground,” he notes. Today, Coke has staff of 58 nationalities at its global headquarters, so Atlanta's huge airport is handy. Good air links, cheap homes and a vibrant cultural life make it easy to attract footloose talent, says Cynthia McCague, Coke's personnel chief.

Famous firms attract less well-known ones to set up nearby. Newell Rubbermaid, an office- and home-supplies company with sales of $6.2 billion last year, moved its headquarters from Illinois to Atlanta in 2003. Mark Ketchum, the CEO, says it helps having so many other corporate headquarters in the city, because managers will often relocate only if their spouses can also find suitable work. Atlanta's racial diversity also helps, he says, and he appears to mean it. To sell power tools to construction workers these days, you need Spanish-speakers, he says; to market black hair products, you want African-American staff. And Georgia offers “inducements” to firms for moving there.

Most other southern states do likewise, sometimes on a lavish scale. In 1993 Alabama gave Mercedes a $253m subsidy to build a car plant, which worked out at $169,000 per job created. (There were 63,000 applicants for 1,500 openings.) Mississippi wooed Nissan in the same way; South Carolina lured BMW; the list goes on. Jim Cobb, a professor of history at the University of Georgia, thinks this “peculiarly southern hospitality to industry” is a poor use of public money. Rather than bribing individual firms to attend the party, it would be more efficient to make the region equally inviting for all.

The South's prosperity is unevenly spread. An oilman in Houston or a lobbyist in northern Virginia lives a life of abundance and choice. But the South has a wide swathe of rural stagnation and some depressed cities: New Orleans, for example, was in trouble even before Hurricane Katrina hit it in 2005. In the Mississippi Delta, some 27% of families live below the poverty line, making it one of the densest concentrations of relative deprivation in the country. In the Delta town of Rome (population: not listed on the census website; churches: four), homes are modest, sometimes tumbledown, cars rust in backyards and the steadiest jobs are at a nearby jail.

Materially, life is easier than it was. Before the second world war 90% of rural southern homes lacked running water. Now nearly everyone has it. But good jobs are hard to come by in the Delta. Whereas in the 1950s 90% of the cotton was picked by hand, now none is. Farmers employ far fewer workers. Mike

Wagner, who grows rice, predicts that satellite technology will allow the use of unmanned tractors before long. But even with galloping mechanisation, he guesses that most local farmers would go bust without federal subsidies.

For the unskilled, options are sparse. If they don't mind breaking the law, they could set up a crystal-meth lab on Mr Wagner's land, perhaps after pinching some of his fertiliser. (He has chased away several drugmakers at gunpoint, and once watched them driving off with their heads out of the car window to avoid the fumes from their half-made product.) The law-abiding can cut each other's hair, fix each other's cars or draw assistance from the state. Bill Pearson, a retired Delta farmer, laments that those with get-up-and-go—“all the bright people and the crooks”—have gone. The SGPB interviewed more than 1,000 rural southerners and found that most wanted better economic opportunities, but few would countenance much change to the rhythm of their rural lives.

Mr Clinton thinks the only way for the South to catch up with the rest of America is to embrace technology. He longs for a day when “you might be a redneck if...” jokes have punchlines like: “You hold six patents and each used the term ‘hunting dog' in the disclosure documents.” Such jokes have yet to catch on, but southern high-tech industries are growing briskly.

North Carolina is home to 88 biotech and 100 biotech-related firms, mostly in the Raleigh-Durham-Chapel Hill “research triangle”. That makes the state America's third-biggest biotech cluster, after California and Massachusetts. Georgia is seventh, and Texas and Florida are also in the top ten. The South's nanotechnology industry is no longer tiny. The region hosts some big federal research projects, such as the Department of Energy's $1.4 billion Spallation Neutron Source project in Tennessee. It has fine research universities, too, which Mr Clinton would like to see collaborate more with private firms. He notes with approval that Georgia, Kentucky and North Carolina give technology firms vouchers to spend at local universities.

Several of the blessings that attract low-tech firms to the South also attract high-tech ones: the weather, business-friendly state governments and the fact that a techie moving to Raleigh can buy four houses for what one cost him in San Francisco. But California still generates more patents than the South, even though its population is under two-fifths the size. The main bottleneck, says nearly everyone interviewed for this report, is what Georgia's governor, echoing Britain's Tony Blair, calls “education, education, education”.

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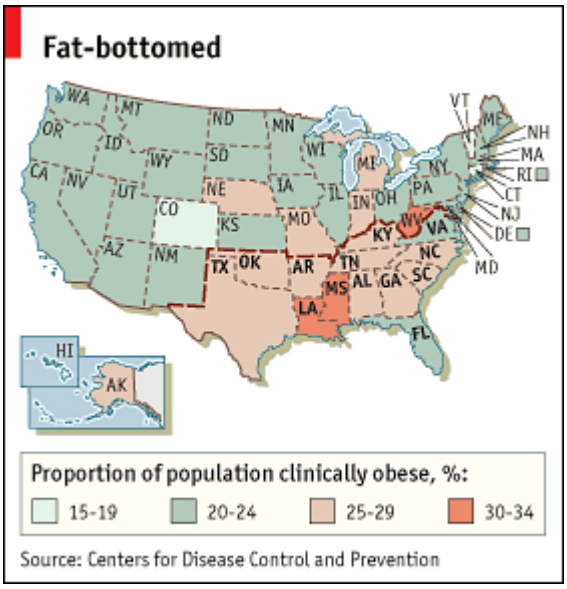
Southern comfort

Mar 1st 2007
From The Economist print edition

The food is too much of a good thing



LUNCH at Peggy's on a Tuesday is heaven. Happy eaters heap their plates with fried chicken, black-eyed peas, cornbread and turnip greens, chase it down with glasses of sweet ice tea and finish with banana pudding. This little family restaurant in Philadelphia, Mississippi, serves up top-notch titillation for the taste buds. But then you drive off, past a big sign advertising discount diabetic socks, and worry that perhaps you overdid it.

The South makes some of the best comfort food in the world. There is no need to acquire a taste for southern treats such as sugar-cured country ham, crackling cornbread and key lime pie: they are delicious from the first bite. For a long time the simplicity of southern cooking prompted southern snobs to shun it in favour of fancier flavours from France or California, says John Edge of the Southern Foodways Alliance, a body that celebrates local food. “But now they are realising what is in their own backyard.”

Many great southern dishes are born of the fusion of European, African and Native American traditions. A good Louisiana gumbo can be thickened with okra, a vegetable from Africa, or sassafras, a Choctaw delicacy, and is often packed with andouille sausage, which has French roots.

For the inquiring palate, the South offers plenty of variety. Simply counting the ways North Carolinians barbecue pork could fill a whole book. (John Shelton Reed, a sociologist, is writing it.) Some chefs experiment with what most prefer not to call “new southern cuisine”. Your correspondent tried shrimp with hot cheese grits (excellent) and *foie gras* on blueberry pancakes (once was enough).

The problem with southern cuisine is that the generous doses of fat, sugar and salt that make it so good for the soul also make it bad for the heart, laments Mr Reed. Southerners are much more likely to be obese than other Americans (see map). Mr Edge denies that southern cuisine is at fault. He blames “the goose-step march of fast-food restaurants southwards”. Certainly the South has grown significantly fatter recently. In 1990 no southern state had an adult obesity rate higher than 14%. Now all bar Florida and Virginia are over 25%, with Louisiana and Mississippi tipping the scales past 30%.

Mr Edge says southern food need not be fatty. Whereas his mother kept a coffee can of bacon dripping by the stove for cooking greens, he uses olive oil. Health bureaucrats wish more would follow his

example. On one government website that teaches children traditional songs, the verse of “Dixie” celebrating “buckwheat cakes and Injun batter” that “makes you fat or a little fatter” links to a page pointing out that childhood obesity can lead to chronic diseases.

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Fixing Dixie's tricksy schools

Mar 1st 2007
From The Economist print edition

The hard lessons of segregation

WAYNE CLOUGH, the president of the Georgia Institute of Technology, has just moved into a new office. The workmen are still in the corridors outside, generating noise and dust. A few years ago the site, in Atlanta, was full of drug addicts and prostitutes. The hotel across the street was boarded up and inhabited by vagrants. Now Georgia Tech is building a “sustainable, energy-efficient campus” with white roofs, recycled building materials and a system for catching and using rainwater. It is a bit more expensive, says Mr Clough, but “if you plan to be around for a while, you'll recapture the costs eventually.”

Corbis

Soft bigotry is harder to overcome

Georgia Tech has a global reputation. Its 16,000 students will mostly go on to careers in engineering, medicine or some other tough and lucrative field. But Mr Clough does have some worries. Southern universities got into the research game later than their northern rivals, so the region is behind the curve in attracting high-tech industries, he says. From time to time, fundamentalists try to teach creationism as science in southern public schools, which “reinforces the backward image”. But his biggest worry is that not enough young southerners are mastering science and maths.

“Brother Dave” Gardner, a stand-up comic from Tennessee, greeted the 1954 Supreme Court order to end segregated schools with the quip: “Let 'em go to school, beloved. We went, and we didn't learn nothin'.” That was harsh, but partly grounded in fact. The point of school segregation was to keep blacks down and whites separate. When it ended, many white parents moved their children from newly integrated public schools to private schools whose chief selling point was whiteness, not academic rigour.

As in so many areas, the legacy of the past afflicts the present. Today, if you rank states by the proportion of inhabitants over 25 who have at least graduated from high school, seven of the bottom ten are southern, with Texas dead last. Look at the current generation of schoolchildren and Texas is doing much better, but the South still lags. On standardised maths tests, 13-year-olds score below the American average in every southern state except Texas, Virginia and the Carolinas. In Alabama and Mississippi nearly half of them score “below basic” on maths, which means that even simple calculations baffle them.

Nicole Dobbs, now 17, attended public schools in Atlanta until 2004. There were “behaviour issues”, she recalls: “Kids fighting, throwing paper, talking back to the teacher, stuff like that. After a while of being [stopped from learning], you figure, what the heck? It can't be important.” Miss Dobbs's motivation dried up when her drug-addict mother moved the family into a homeless shelter. But it revived when she was

accepted at Tech High, a state-funded but independently run “charter” school.

Some of the South's educational problems are cultural. A high proportion of students are poor, black or Hispanic. Black and Hispanic kids who do well academically are sometimes accused by their peers of “acting white” and ostracised. This is not an urban myth. A robust study by Roland Fryer of Harvard University showed that above a certain grade-point average, blacks and Hispanics have fewer friends than other pupils, whereas whites have more. But culture is not destiny. A good school can help to mould it.

Tech High is 97% black or Hispanic and takes kids from the roughest parts of Atlanta without screening for academic aptitude. Alan Gravitt, a science teacher there, says that when he gets new students from the public system, “it's shocking what they don't know.” One 14-year-old girl, he recalls, was surprised to learn that six divided by three was not the same as three divided by six. Tech High spends only two-thirds as much money, per pupil, as the Atlanta public schools. Yet its test scores are better than any in the inner city, and on a par with the average for Georgia. Why? Its teachers are easy to sack and rewarded by merit. Management is lean. Classes are disciplined, not least because teachers can threaten to send troublemakers back to the public schools they escaped from.

Learning to do better

Jay Greene, a professor at the University of Arkansas, says there has been more educational progress in the South than in other regions in recent years. Between 1992 and 2005, for example, the seven states that showed the swiftest improvement in nine-year-olds' maths scores were all southern. Mr Greene singles out Florida, Texas, North Carolina and Tennessee for subjecting pupils to rigorous testing, reducing class sizes, making schools more accountable and giving parents the choice to switch from bad schools to better ones.

Such reforms—especially school choice—often meet fierce resistance from teachers' unions and educational bureaucrats. Charter schools such as Tech High typically cannot set up without permission from the educational hierarchy whose flaws they plan to expose. A modest attempt to make it easier to sack incompetent teachers in Georgia was revoked in 2003 after its main sponsor, Governor Roy Barnes, a Democrat, was spurned by the educational establishment and voted out of office. But Mr Greene thinks the general picture is positive. “The South did not have the same tradition of educational achievement as the north, and that held it back,” he says. “But that's not really the case any more. The big advantage that the north had is not infinitely self-perpetuating.”

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Baby, look at you now

Mar 1st 2007
From The Economist print edition

The South has shed some of its bad habits, but none of its charm

IRKED by outsiders' condescension, Mississippi put out some state-boosting advertisements last year. “Yes, we can read,” says one. And then, over pictures of William Faulkner, Tennessee Williams, Eudora Welty and other local literary luminaries: “A few of us can even write.”

Alamy

Shoot, batter, deep-fry

It is a smart piece of marketing, though anyone who actually reads Faulkner will find him horribly gloomy about his home region. Much of the southern literary canon sprang from native writers' fury at the backwardness and injustice they saw all around.

The South's artistic output has not necessarily improved in recent decades, but the life it depicts certainly has. Contrast, for example, Faulkner's 1929 novel “The Sound and the Fury” with “Hillbilly Deluxe”, a recent country-music hit. In the novel, an aristocratic family crumbles into financial ruin and utter dysfunction. In the song, some good ol' boys drive around in enormous pick-up trucks having a splendid time. One cannot help thinking that a region where blue-collar workers own $25,000 vehicles must be doing quite well.

In the past half-century, the South has come further than any other American region. That is partly because it was such a mess during segregation, but also because so many southerners have since tried so hard to make integration work. The South today is rich and peaceful. Black southerners are masters of their own fortunes. Race relations are often edgy, but seldom flare into violence. The civil-rights movement swept away many southern traditions, but none that anyone should mourn.

Some think that the South is losing its distinctiveness. That is true, up to a point. Southerners are now more likely to live in suburbs than in shacks, to pick stocks instead of cotton, and to wear shoes. But “the persistence of the cultural South does not require that southerners stay poor and rural,” says John Shelton Reed, a sociologist. “Indeed, poor folks can't afford some of its trappings.” Fishing tackle and rifle scopes are expensive.

The southern traditions that deserve to survive mostly have, and will continue to do so. Southern hospitality is still gracious. Southerners are surely more polite than of old, if you take account of how whites address blacks. The religious faith that animates southern life is undimmed. Indeed, white southern Christianity seems more Christian since its preachers stopped preaching white supremacy.

In a world where everyone is howling for attention, it helps if your home region has a recognisable brand. The South certainly has. It spawned jazz, NASCAR stock-car racing, Elvis and the Dukes of Hazzard.

Some of its offerings, such as Coke, Wal-Mart and CNN, are so familiar that people think of them as American rather than southern. But the appeal of others is based at least in part on a romantic image of the South as a place of song, flavour and charm.

Song, flavour and charm are not enough, however. To catch up with the rest of America economically, the South also needs a better-educated workforce. Too many southern schools fail to prepare children for a world in which well-trained brains are more richly rewarded than brawn. It is encouraging that nearly every southern policymaker recognises this problem. But that is only the first step towards solving it. And reactionary educational bureaucrats still block the door to reform.

The South's vices are America's, exaggerated. Racism still festers. The region is a shade more violent than the rest of America, and much more so than Europe or Japan. It also carried out 44 of the 53 executions in America last year. On the other hand, what other region with such a turbulent history is now so pleasant to live in? The most convincing retort to Dixie's critics is also America's. Just as those who doubt the vitality of the American Dream need only look at the queues for green cards, so those who scoff at Dixie should watch America's internal migration. In 2004-05 some 1.3m people moved to the South from other parts of America. Many more trekked up, uncounted, from Mexico. And all who come, come voluntarily.

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Sources and acknowledgements

Mar 1st 2007
From The Economist print edition

In addition to those mentioned in the text, the author would like to thank:

Bobby Banks, Bill Biedeger, Dana Bolden, Gregory Braggs, Jesse Gresham, Ulus Hambrik, Irie Knighten, Ivy Le, Craig Lesser, Jerome Little, Betty McCain, Stefan McCain, Kelly McCutchen, Jim McKinnon, Doug Monroe, Jonathan Pait, Betty and Bill Pearson, Zoraya Suarez, John Taylor, Lamar Valentine, Rogers Wade and Crystal Walker.

Sources the author found useful include:

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"Innovation with a Southern Accent” (Report on the Future of the South) by Jim Clinton et al.

“Politics and Society in the South” by Earl Black and Merle Black.

“Whistling Past Dixie” by Thomas Schaller.

“The Hand of the Past in Contemporary Southern Politics” by James M. Glaser.

“Standing Without Apology: The History of Bob Jones University” by Daniel L. Turner.

“The Dixification of America” by Stephen D Cummings.

"America in Black and White" by Stephan and Abigail Thernstrom.

"A Jew Among the Evangelicals" by Mark Pinsky.

Weblinks:

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Private equity

Eco-warriors at the gate

Mar 1st 2007 | AUSTIN, LONDON AND NEW YORK
From The Economist print edition

Does the record-breaking purchase of TXU signal a new strategy for private equity?

Reuters

ANOTHER week, another record-breaking private-equity deal. But the $45 billion purchase of TXU, a Texan energy utility, is fascinating not just because of the high price agreed by a gang of private-equity firms led by Kohlberg Kravis Roberts (KKR) and Texas Pacific Group. The preparation of the deal was as much about politics as the number-crunching and financial alchemy that are private equity's stock in trade. In essence, the buyers are betting that the increasingly sensitive question of how to produce energy in an environmentally acceptable way is better handled by a privately owned firm than by one exposed to the public markets.

In recent months TXU has become the bogeyman of green activists, thanks to its plans to build 11 old-tech, “dirty coal” power plants in Texas—and possibly more in several other states. Such plants belch carbon dioxide into the atmosphere, contributing to global warming, and produce other noxious substances. Protesters demonstrated last month outside the capitol building in Austin. The mayor of Dallas has led a coalition of Texas cities opposed to the new coal plants. And the governor of Texas, Rick Perry, was roundly criticised for trying to speed through the construction of TXU's coal plants, before being blocked by a state judge.

The new private-equity owners of TXU say they will adopt a radically different approach. Capitalism's legendary “Barbarians at the Gate”, made infamous by KKR's acquisition of RJR Nabisco in 1989, have become a bunch of tree-huggers. They will cut the number of new coal plants to three and abandon thoughts of similar plants elsewhere. They will invest heavily in new clean-energy technologies. And they promise to put environmental stewardship at the heart of TXU's culture, under the guidance of William Reilly, a former chairman of WWF, a green lobby group. That comes naturally, you understand, to a board member of WWF like David Bonderman, co-founder of Texas Pacific.

Greenmail

Environmental Defence, another lobby group, which had been suing TXU, greeted the new strategy as a “watershed moment in America's fight against global warming.” Although campaigns against the three remaining plants will continue, many of TXU's critics have concurred. Such is the reward for a huge amount of behind-the-scenes work led by Mr Reilly, who is admired by green activists for his efforts to

improve America's Clean Air act while serving in the administration of George Bush senior.

Texan politicians were also lobbied by Don Evans, a former commerce secretary, and James Baker, a former secretary of state, both of whom will serve on TXU's new board. Mr Baker will be chairman, which should take the heat off TXU's chief executive, John Wilder, who will remain in his post. All this is faintly humiliating for Mr Wilder, who must renounce a strategy he vigorously advocated (though he will be well paid for it). The new owners want him working for them, since he is an “excellent operations guy”.

The Texas state legislature is threatening to block the deal, even though that is strictly beyond its power. Locals gripe that since the state deregulated its electricity market five years ago, rates have risen fast. The buyers have already promised a 10% rate cut for some customers, at a cost of $300m, but some lawmakers want more.

The new buyers argue that the political threats to energy firms are hard for a public company to handle. “The company before was focused on one constituency, public shareholders. That meant it had to concentrate on short-term growth,” says Michael MacDougall, a partner at Texas Pacific. “This deal adds two more constituents, the consumers of the state of Texas and environmentalists. By balancing these three constituencies, we will get the best long-term result for the firm.”

As well as the cancellations and the rate cut, TXU will increase spending on energy conservation. It will build a pilot “clean coal” plant on one of the cancelled dirty-coal sites. It will invest more in alternative energy—Texas is already America's leader in wind power—and, controversially, keep an open mind about more nuclear power.

In spite of all that, cynics question how virtuous the new owners really are. In recent years KKR and Texas Pacific each failed in separate bids for energy utilities. Their sudden greenery may have been devised to see off the sort of opposition that wrecked those deals. And cancelling the planned plants might benefit TXU, by leaving Texas short of power and so allowing the firm to raise prices. The private-equity buyers insist that the three plants being built, plus conservation, will give TXU and its stakeholders long enough to come up with a plan, but the state's population is expected to double by 2060 and Texans need plenty of electricity to run their air-conditioners in the blazing summer heat.

Whatever the motive, cutting back on new coal plants was a wise business decision. Doubters also note that the cost of building coal-fired plants has risen in recent years. Last year Duke Energy, another big utility with green pretensions, raised the projected cost of two coal-fired plants from $2 billion to $3 billion.

Lastly, new regulations could change the economics of coal by putting a price on carbon emissions. “It makes sense to assume we will have carbon regulation within three to five years,” says Mr Reilly. On February 26th five western states agreed to set up a scheme to cap emissions; nine north-eastern states are already implementing one and Congress is contemplating a national cap. Even the Edison Electric Institute, an industry lobby, says it would not oppose mandatory limits on emissions under the right circumstances.

Wood Mackenzie, a research firm, forecasts that most of America, including Texas, will need more generating capacity in the next few years. But so long as the regulatory outlook remains highly uncertain, the safest option for many utilities, including TXU, may be to build fewer plants—a strategy that would at least bring the consolation of higher energy prices.

By betting that they can profit from social and political change, TXU's private-equity buyers seem to be following a road much travelled by their peers in venture capital, says Josh Lerner of Harvard Business School. This strategy has been “a long time coming,” he says. But he notes that it is more dangerous than private equity's traditional approach. Playing politics may prove a risky business even for private-equity's masters of the universe.

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Soft drinks in Asia

Orange gold

Mar 1st 2007 | HONG KONG
From The Economist print edition

Coca-Cola strikes it rich in Asia with a new drink

A DRINKS company must be able to depend on a powerful brand; but it also needs to come up with sought-after novelties. The odds against such a thing are staggering. Every year thousands of new drinks are created; a few go on the market; none may survive. The selection in many vending machines has barely changed, if it has changed at all, in a generation. So the success of Coca-Cola's new orange-juice drink, developed in China, is a rare triumph.

In most parts of the world Coke's sales are driven by the famous fizz, with richer countries, where calories are all too abundant, leaning increasingly towards Diet Coke, developed in 1982, and poorer countries leaning towards the original sugary stuff dating back to the 19th century. The southern belt of China, which is rich by local standards, but not by global ones, conforms to this model. Not so China's poorer interior, where the dark colour of colas is associated with the dark tea traditionally used to mask the sediment in the local water. Here consumers prefer the clear, citrus-flavoured Sprite, developed in 1961.

After much consumer and product research at a new laboratory in Shanghai, Coke came up with a drink that combines the ingredients of plain old orange juice—including some juice and real pulp, accounting for about one-fifth of the liquid—with calcium, vitamins and lots of water. The diluted drink costs about $0.30 for a 500ml container, or about a quarter as much as pure orange juice. Following a small test-marketing project in 2003, “fruit pulp orange” has steadily been rolled out across China and has recently become available throughout the country.

The results have been staggering, particularly in poor regions, where the usual orange juice sold by Coca-Cola's Minute Maid subsidiary would be unaffordable. The new drink quickly became the most popular or second-most popular juice in every region of the country.

As a result, Coca-Cola's overall volume of sales in China surpassed those in Japan in 2006, making it the company's fourth-largest market, behind Brazil, Mexico and America. Following orange-pulp's success in China, Coke launched it in Thailand in 2005, where it has been a huge hit, and on February 19th the company began rolling out the new drink in India, too. This enthusiastic welcome is in sharp contrast to Coca-Cola's fate in developed markets: single-digit growth in Europe and none at all in America. For mass-market drinks firms, the opportunities, such as they are, lie in the developing world.

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Brand management

Trouble brewing

Mar 1st 2007 | LONDON AND PURCHASE, NEW YORK
From The Economist print edition

Two global drinks brands are trying to revitalise themselves

PEPSI and Starbucks share a problem. The second-biggest maker of cola and the world's largest chain of coffee shops are both worried about how customers perceive their brands. Pepsi has always been about "experience", says Ron Coughlin, a Pepsi marketing executive. The trouble is that consumers are increasingly experiencing healthier soft drinks and bottled water, rather than sugary cola. Starbucks, meanwhile, may have expanded too quickly, which is why Howard Schultz, its chairman, worries that the "Starbucks experience" is under threat.

In an internal memo sent to senior Starbucks executives on February 14th, which was leaked onto the internet, Mr Schultz says that the expansion from 1,000 to more than 13,000 shops over the past ten years has led to a watering down of the Starbucks experience and to "what some might call the commoditisation of the brand". One result, says Mr Schultz, is that some people find its stores "sterile, cookie-cutter, no longer reflecting the passion our partners feel about coffee."

An experience, not a drink, apparently

Starbucks and Pepsi rank among the 50 most valuable brands in the world, according to BrandZ, a market-research company. Both have prospered by exploiting their strong brands to sell what are really commodities—coffee and cola—at premium prices. A cup of coffee costs about three times more at Starbucks than at an ordinary coffee shop in New York and Pepsi sells for 60-70% more per litre than supermarkets' own-label colas. Now both companies are at risk from a growing sense that their products are indeed just commodities, says Robert Passikoff, founder of Brand Keys, a brand consultancy.

In his memo Mr Schultz suggests that the company needs to go back to its roots. From its beginnings in the 1970s Starbucks set out to be a "third place" to spend time, in addition to home and work. The smell of fresh coffee beans is supposed to waft through brightly lit cafés fitted with tables and comfortable chairs. Electrical plugs let customers recharge their portable music-players or laptop computers. Most Starbucks in America, and in some other countries, provide wireless internet access.

But during its expansion Starbucks installed automatic espresso machines, rather than hand-pulled ones, added drive-through windows for motorists and started to sell hot food, mugs and even CDs. As McDonald's, Dunkin' Donuts and other fast-food chains moved upmarket, Starbucks looked less distinctive. *Consumer Reports*, an American magazine that publishes reviews of consumer products, recently rated McDonald's coffee more highly than that sold at Starbucks.

Mr Schultz's desire to return to Starbucks' roots would appear to be at odds with the company's stated goal of growing to 40,000 outlets worldwide. Some analysts think Starbucks' brand is already overstretched. "Our research suggests that customers are defecting," says Mr Passikoff. This year Starbucks lost first place in Brand Key's annual study of consumer loyalty in the coffee-and-doughnuts category to Dunkin' Donuts.

Pepsi's problem is that it is a big brand in a shrinking market. Sales of carbonated soft drinks declined from 10.24 billion cases in 2004 to 10.18 billion cases in 2005, according to Beverage Marketing, a research firm. (A case is defined as 192 American fluid ounces, or 5.68 litres.) The main reason for the decline is growing concern about obesity.

Last month Pepsi launched a global restyling of its Pepsi cans, with a series of 35 new designs with themes such as music, sport or fashion. The globe logo and the lettering on the cans will remain the same, but a new theme will make its debut every few weeks. Each one has its own website with video clips and other enticements to engage consumers. The aim is to represent the “fun, optimistic and youthful” spirit of Pepsi, says the firm. “It's a facelift, but I am not sure whether it will make much difference to margins,” says Robert van Brugge, a beverage analyst at Sanford Bernstein. Mr Passikoff says changing the packaging is a tired brand's last refuge.

During its 109-year history Pepsi has undergone many rebrandings, of course, but none on this scale. By next year the current red, white and blue Pepsi can will have disappeared from the shelves. The company instead promises a “sustained discovery” for people of all ages and—not surprisingly—a new “experience”.

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European utilities

Battle of the giants

Mar 1st 2007
From The Economist print edition

Italy's Enel stamps on E.ON's long-running bid for Spain's Endesa

ENEL'S raid took everyone by surprise. Rafael Miranda, the boss of Endesa, Spain's biggest electricity company, was in Frankfurt on February 27th for a breakfast with German journalists when Enel, Italy's state-controlled electricity giant, swooped to buy almost 10% of his firm. Mr Miranda rushed back to Madrid to try to work out where this leaves the takeover bid for his company by E.ON, a German utility. He supports the German offer—after some grumbling about the price.

E.ON says it will pursue its bid for Endesa in spite of the Italians' unexpected sally. But the chances of success for the biggest (and longest-running) takeover in utilities history suddenly look very small. The Germans are now faced not only with staunch opposition from the Spanish government and resistance by a powerful Spanish shareholder, but also with a cash-rich and expansion-hungry Italian rival.

The Spanish government opposed the German bid from the outset because, like most European governments, it is keen to create a home-grown energy champion in anticipation of full deregulation of the energy market in July. It even backed a lower offer for Endesa by Gas Natural, another Spanish energy firm, despite its rejection by the antitrust authorities in Madrid. In November 2006 the government found an ally in Acciona, a Spanish construction firm, which built a stake of more than 21% in Endesa and says it wants full control. For its part, Enel is planning to increase its stake in Endesa to 24.9%, above which it has to launch a full bid for the company.

E.ON's bid must clear two hurdles to succeed. The first is a shareholder vote at the general meeting on March 20th to remove provisions in Endesa's bylaws capping any investor's vote at 10%. Acciona has already signalled that it will abstain from the vote. Enel will probably do the same, as will Sepi, a state-controlled holding company, which holds another 3% of Endesa shares. This means it will be practically impossible to get the required 50% of Endesa shareholders to vote in favour of a change in the firm's statutes. The second hurdle is the acquisition of at least 50.1% of Endesa's shares. If Enel gets permission from the Spanish energy regulator to raise its stake in Endesa to 24.9%, more than half of Endesa will belong to Spanish and Italian firms unwilling to sell to the Germans.

It has done no good to Spain's reputation among international investors, but the Spanish government is thus likely to keep Endesa Spanish, or at least southern European. Its bias became blatantly obvious this week. A Spanish solution was more likely than a German victory, said Joan Clos, Spain's industry minister, in a radio interview on February 26th. He said this would involve “some sort of pact”.

Last week José Luis Rodríguez Zapatero, the Spanish prime minister, and Romano Prodi, his wobbly Italian counterpart, met on the island of Ibiza. Both sides deny discussing energy, let alone some form of deal. But in return for Enel's move into the Spanish energy sector, Spain's Abertis may suddenly find that it is able to merge with Italy's Autostrade; or Telefónica, the Spanish telecoms giant, might miraculously find it easier to buy into Telecom Italia—two deals the Italian government has hitherto been blocking.

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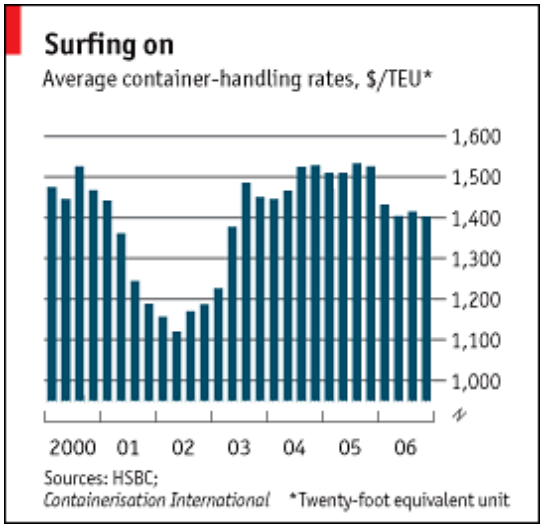
Container ships

Maxing out

Mar 1st 2007
From The Economist print edition

The coming generation of giant ships cuts costs, but creates new problems



WITH world merchandise trade growing by around 15% a year and China's exports at nearly twice that rate, the boom in container shipping is set to run and run. Trade between China, India, America and Europe accounts for 65% of the 250m-plus containers moved around the world each year. Freight rates rose by nearly one-third in the four years to the peak of the cycle in the third quarter of 2005 (see chart). That led to a splurge in orders for new, larger ships. All too predictably, these are about to be launched into a cycle turning down. In the last quarter of 2006, according to *Containerisation International*, a trade journal, freight rates fell by 8% compared with a year earlier, as supply rose and demand growth slackened from 13% in 2006 to about 11% this year.

There are some 4,000 box-carrying ships afloat today and another 1,300 have been ordered. The tonnage on order is equal to half the existing fleet, whereas the proportion historically has been around 30%. A glut could be on the way: since most of the present fleet is modern, there is little incentive to scrap vessels. And those that are broken up are invariably replaced with vessels that are twice the size and carry freight more cheaply.

The mightiest of the new leviathans is the *Emma Maersk*, which started ferrying boxes of toys from China to Europe in time for Christmas last year. It can carry 11,000 20-foot containers (TEUs), or the equivalent in the 40-foot size that now prevails, in its 397-metre hull. A train carrying that load would be 71 kilometres (44 miles) long. The *Emma Maersk*'s huge diesel engine has the power of 1,200 cars and its anchor weighs as much as five African elephants (about 30 tonnes).

Maersk Line, the biggest container-shipping company, is planning more vessels at least as big as its flagship, and CMA CGM, a French company, has eight under construction. Other carriers are bound to follow suit to match the economies of scale. Some forecasters predict megaships carrying 18,000 TEUs, in pursuit of cost reductions of as much as 30% per container compared with smaller, older vessels. But at that size the ships run into problems.

Until 1988, the biggest container ships carried 5,000 TEUs, which meant that they were small enough to fit through the Panama Canal. Ships must be no wider than 32.3 metres, no longer than 294.1 metres and have a draught no greater than 12 metres to cope with the locks along the 80-kilometre journey between the Atlantic and Pacific. Ships that fit the canal are known as Panamax class. The huge new container ships are known as post-Panamax, because they are far too big for the canal.

Faced with a cap on their main source of income as container ships assumed a more important share of canal traffic, the people of Panama voted their approval in a referendum last October for a controversial $5 billion scheme to expand the capacity of the 93-year-old canal. The new locks will be big enough to accommodate the Maersk monster. But opponents of the project criticised its environmental impact and claimed it would make more sense to build a port on the Pacific side big enough to handle post-Panamax vessels, containers from which could then be sent to the Atlantic side by rail.

This month Suez Canal managers will announce that they plan to offer discounts during the construction period of the enlarged Panama Canal. They hope to keep shipping firms faithful to their route, which can handle even the biggest of today's container ships and most super-tankers, though sometimes they have

to offload some oil to a tow-path pipeline.

If the pursuit of economies of scale drives ship sizes beyond 18,000 TEUs, then nature presents another formidable obstacle. Vessels of this size are known as Malaccamax, which means they would be the largest able to sail through the Straits of Malacca between the Malaysian Peninsula and the Indonesian island of Sumatra. This 805-kilometre stretch is a shipping lane of equal importance to the Panama and Suez canals, but it has a shallow point only 25 metres deep, limiting passing ships' draught to 20 metres.

The sheer bulk of the latest ships is also concentrating traffic in big hub ports. About 20 ports, led by Singapore, Hong Kong and Shanghai, dominate container shipping, with cranes big enough to handle the huge ships and channels deep enough to take them. Yet at some point the economies of scale are bound to run aground on the cost of upgrading ports to handle ever larger vessels.

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Computing

Going green

Mar 1st 2007
From The Economist print edition

Is the growing power consumption of data centres a threat or an opportunity?

THE people, places and things inside Second Life, a thriving online world with millions of residents, may be imaginary—but the power consumption of the computers that maintain the illusion is all too real. Nicholas Carr, a business writer and blogger, recently worked out that each of the 15,000 or so residents logged in at any one time consumes electricity as a result of their activities in the virtual world almost as fast as the average inhabitant of Brazil does in real life. Second Life's residents, Mr Carr concluded, “don't have bodies, but they do leave footprints.”

It is just one example of the growing concern over the increasing power consumption and environmental impact of computers, and in particular the warehouses full of corporate machines known as data centres. A study by the Lawrence Berkeley National Laboratory, released last month, found that the power consumption of data centres doubled between 2000 and 2005, and now accounts for 1.2% of American electricity consumption, though other estimates put the figure at 4%. Companies now spend as much as 10% of their technology budgets on energy, says Rakesh Kumar of Gartner, a consultancy. (Only around half of this is used to run computers; much of it goes on cooling.) IDC, a market-research firm, says power consumption is now one of systems managers' top five concerns.

Power consumption has increased because of the rise of the internet, of course, but also because of way in which computers have historically been designed: to maximise performance at all costs. Between 1996 and 2006, says Jed Scaramella of IDC, the number of servers in use went from 6m to 28m and the average power consumption of each server grew from 150 watts to 400 watts. But things are now starting to change and the computer industry has been seized with enthusiasm for “green computing”.

Dell, a big PC-maker, recently launched a scheme that allows its customers to plant trees to offset the carbon emissions generated by their computers. DigiPlex, a Scandinavian data-centre firm, boasts that locating servers in its Oslo facility is greener than elsewhere in Europe, since Norway generates 99% of its electricity from hydropower. And this week several of the industry's main firms, including AMD, Dell, HP, IBM, Intel, Microsoft and Sun, launched a “Green Grid” consortium dedicated to reducing data-centre power consumption.

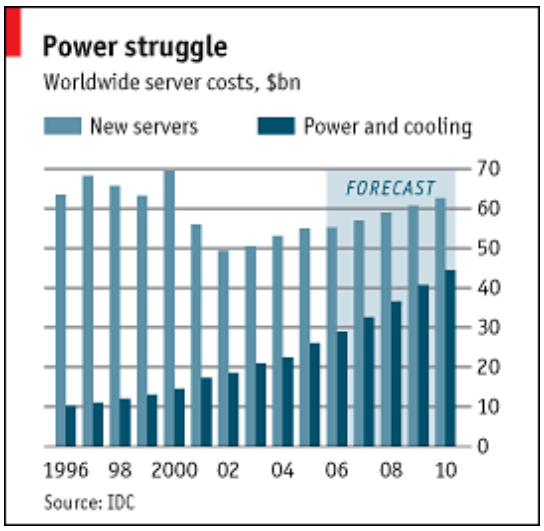
Three technological fixes in particular could help. The first is new “multi-core” processor chips, in which performance is improved not by increasing clock speed, but by building several processing engines, or “cores”, into each chip—a far more energy-efficient approach. AMD, Intel and Sun now boast of their chips' “performance per watt” (ie, work done for each unit of energy), rather than simply emphasising raw performance. Dual-core chips are commonplace, and quad-core chips are spreading too. The switch from dual-core to quad-core over the past 18 months increased performance per watt by a factor of 4.5, says Stephen Smith of Intel. This ought to mean that average power consumption per server will level off in coming years, says Mr Scaramella.

The second fix comes from using more efficient power supplies. At the moment, data centres perform many conversions between alternating current (AC) and direct current (DC). This wastes energy, which is emitted as heat and increases the need for cooling. It would be far more efficient to power servers directly from a central DC supply. Data393, a data-centre company based in Denver, Colorado, has tried this approach and says it can reduce power consumption by nearly 20%. The problem is that there is no single standard for DC power supplies, so such savings cannot easily be achieved in a data centre filled with equipment from different vendors. Developing new power-supply standards is one of the aims of the new consortium.

The third fix is the more careful use of cooling systems. HP, for example, has devised a scheme called Dynamic Smart Cooling,

which links temperature sensors installed on servers to air-conditioners so that blasts of cool air can be directed towards particular servers only when needed. Such systems can reduce cooling costs by 25-40%, says Paul Perez of HP. Once again, however, standards are needed to ensure that different sensors and cooling systems can talk to each other.

All this will take time. “It's all talk so far,” says Mr Kumar. Energy costs will continue to rise and will rival annual hardware spending by 2010, Mr Scaramella predicts (see chart). As managers worry about energy costs, they will grow more interested in replacing old servers with new ones based on multi-core chips, installing more efficient power supplies and switching to more sophisticated cooling systems—in other words, buying lots of new gear. For vendors, mushrooming energy bills represent a big opportunity.



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Eastern Europe's technology boom

Brains boxed in

Mar 1st 2007
From The Economist print edition

How long can the good times last?

ON THE face of it, Romania's software industry could hardly be doing better. Foreign firms such as Microsoft, Alcatel and Hewlett-Packard are piling in, attracted by cheap, skilled and multilingual programmers, and proximity to rich Europe. It is part of a wider boom stretching from well known hotspots such as Estonia (home to Skype) to autocratic Belarus.

Cornelius Brody of iQuest, which writes software for companies including Virgin Atlantic and Lloyd's of London, now employs 160 people after ten years in Romania. He praises the “multilingualism, multiculturalism and Western-oriented mentality” in the northern part of Romania, which used to be part of the Austro-Hungarian empire. But business is getting harder. His programmers' salaries are now at 50% of Western levels and are rising by as much as 20% a year. When the discount to Western salary levels drops to around a quarter, it is scarcely worth going abroad, he notes.

That squeeze is common across the region. Over the past decade foreign firms have snapped up workers with excellent maths and thrifty programming habits honed by the educational system and hardware shortages of the communist era. “Everyone is facing the same problem,” says Steve Keil of Sciant, based in Bulgaria. “More foreign direct investment means fewer programmers available.” To cope, his firm has shifted some work to Vietnam.

As it struggles to respond, eastern Europe's software industry faces two big tests. The first is to move away from low-margin offshoring towards higher-value work. “When we started our typical customer was a foreigner wanting something done cheaply,” says Pawel Zak of IMPAQ, a thriving Polish software firm. “Now it is a Polish firm wanting something done quickly.”

The second test is getting enough graduates of sufficient quality out of ossified education systems. Natasha Starkell of Goal Europe, a consultancy, notes that Ukraine, with a population of 47m, produces 30,000 computing graduates a year. This gives it an edge over Romania, with a population of 22m, which produces only 8,000. Zsolt Nagy, the Romanian government minister responsible, admits there is a bottleneck, but insists that public-private partnerships in education will increase capacity.

Yet across eastern Europe, higher education—almost always state-run—has been remarkably resistant to reform. Ms Starkell says that universities are run as “fiefs” where innovations such as teaching by outside practitioners are strongly resisted. Higher demand for graduates tends to result in corruption in entrance requirements or a drop in standards, rather than better teaching.

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Face value

At the sharp end

Mar 1st 2007
From The Economist print edition

Count Anton Wolfgang von Faber-Castell has proved that the humble pencil is not a commodity

AP

SO CONVINCED is Count Anton Wolfgang von Faber-Castell that his pencils are the best in the world that one day in 2005 he threw 144 of them out of the window from the tower of his *Schloss*. They fell 30 metres onto hard tarmac—and not one of them broke. The graphite “lead” is so firmly squeezed and glued into its pinewood sleeve that it will not shatter, he boasts, something that is not true of lesser brands. Pencils made by Faber and later Faber-Castell just outside Nuremberg have had a reputation for quality ever since 1856 when Lothar von Faber, the count's great-great-grandfather, bought a graphite mine in Siberia to secure the best raw material. The family firm had been going since 1761, but Lothar was the one who went international, opening offices in New York, London, Paris, Vienna and St Petersburg. The pencils have impressed the discriminating ever since. “They produce a capital black and are most agreeable for large studies,” wrote Vincent van Gogh, and their fans today include Karl Lagerfeld, a fashion designer, and Lord Foster, an architect.

Pencil-making might appear to be a commodity business—surely one pencil is much like another? But Count Faber-Castell, an investment banker by training who took over the firm in 1978, has proved otherwise. He has turned Faber-Castell into a global brand that is also in tune with the environment. In the 1980s, rather ahead of the pack, he planted 10,000 hectares of sustainable pine forest in Brazil to provide pencil-wood. He also built a big natural-rubber factory in Malaysia to supply the erasers. And in 1993 he introduced a non-toxic water-based lacquer for the pencils, a comfort for those who insist on chewing as they create.

Although pocket calculators did away with the slide-rule, once part of Faber-Castell's product range, the count's tenure has been marked by his insistence that traditional writing tools still have a place in the internet era. So far the computer has not eclipsed the humble pencil: there is no substitute yet for the cheapness and practicality of coloured and graphite pencils for children, artists, office workers, designers, and the billions of people without computers. The count hallows the day in the 1990s when he refused to take his consultants' advice to embrace the digital age. “We stuck to what we're good at,” he says.

Faber-Castell now has factories at 16 sites worldwide, including Peru, Indonesia, India and China, and makes 2 billion pencils a year. The firm will turn over close to €400m ($530m) this year, 85% of it

outside Germany. The good advice the count did take, from Boston Consulting Group, was to launch a range of premium products to reinforce the brand, including “Graf von Faber-Castell” luxury items that bear his name. One of these is the “perfect pencil”, still made of wood and graphite, but with a silver sharpener and eraser. Many of these premium items are very similar to products found in ancient Faber catalogues: there is not much scope for innovation in pencil design, though the company got a shot in the arm from its triangular “grip” pencil, embossed with novel anti-slip dots, launched in 2001.

Count Faber-Castell is the embodiment of his firm's brand: a tall, patrician figure, usually in a well tailored suit. (As a student in Zurich he modelled shirts for a mail-order firm.) After studying law, he worked at White Weld, an American securities house that became part of Credit Suisse. But as one of ten siblings he was reluctant to get involved in a succession battle back home, until his father Roland offered him full control, with a watertight contract devised by an investment-banking friend. Only one other sibling, Andreas, works for the firm, running anglophone Asia. “The others can't complain financially,” says the count, though he indirectly owns 88% of the shares.

Succession is becoming an issue again. The count's one son, Charles, is enjoying life at a private-equity firm, and his three daughters are still at school. In 2005 the count rejuvenated the firm's top management: there is now a triumvirate, all in their 40s, with no indication of whom, if anyone, will be chosen to succeed the count. He has talked of retiring at 70, in 2011, but has also said, “I'll work part-time after I'm 90.” In the meantime Count Faber-Castell is collecting prizes for corporate governance. In 2000 he introduced a “social charter” for his workers worldwide, though the benefits vary from country to country. There is a profit-sharing scheme in Brazil, but not in Germany, where introducing it is easier said than done, he says. Welfare at the firm has a long tradition: great-great-grandfather Lothar introduced one of the first health schemes for workers in 1844.

Sharpen your pencils

Inevitably, investment bankers have proposed taking the firm public. But Faber-Castell is well enough capitalised, with a debt-to-equity ratio of roughly 50%, and the count says he would regret the loss of flexibility and the time demanded for investment roadshows. “I'm not against an IPO in principle,” he says, “but we have the ability to grow internally.” Such growth is expected to come mainly from the leisure market, especially drawing as a hobby, which is growing in popularity among the developed world's swelling ranks of elderly people.

So Faber-Castell remains an old-fashioned family firm. The logo on each of its products—two knights jousting with pencils—befits a merchant clan, ennobled by the Bavarian monarchy, whose factory is overlooked in feudal fashion by the family *Schloss*, an imposing pile in the *Jugendstil* style that was commandeered by the German army during the second world war. It later housed journalists, including John Steinbeck and Ernest Hemingway, who were covering the Nuremberg war trials. One appalled hack described the castle as “Deutsche *Schrecklichkeit* at its worst”. But Count Faber-Castell has had it gradually restored as an integral part of the brand. It houses a museum, the works canteen and meeting rooms—and, of course, the count occasionally opens a window to test Faber-Castell's wares.

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The rise and fall of corporate R&D

Out of the dusty labs

Mar 1st 2007 | BARCELONA, PALO ALTO AND ZURICH
From The Economist print edition

Technology firms have left the big corporate R&D laboratory behind, shifting the emphasis from research to development. Does it matter?

Corbis

IN THE waning days of the second world war, Vannevar Bush, science adviser to President Franklin Roosevelt, penned a report that served as the blueprint for what would become America's enormously successful information-technology industry in the second half of the 20th century. With the grandiose title “Science, The Endless Frontier”, Bush (no relation to the current president) laid out a vision for government-funded science and engineering that would unite academia, industry and (this being wartime) the armed forces. This it achieved by, in effect, keeping them apart.

Under Bush's plan, universities researched basic science and then industry developed these findings to the point where they could get to market. The idea of R&D as two distinct activities was born. Firms soon organised themselves along similar lines, keeping white-coated scientists safely apart from scruffy engineers.

This approach was a stunning success. AT&T's Bell Labs (pictured above) earned six Nobel prizes for inventions such as the laser and the transistor. IBM picked up three, two from its Zurich Research Laboratory alone. And Xerox's Palo Alto Research Centre (PARC) devised the personal computer's distinctive elements, including the mouse, the graphical user interface and the Ethernet protocol for computer networking (although it was criticised for failing to commercialise such leaps forward).

Now the big corporate laboratories are either gone or a shadow of what they were. Companies tinker with today's products rather than pay researchers to think big thoughts. More often than not, firms hungry for innovation look to mergers and acquisitions with their peers, partnerships with universities and takeovers of venture-capital-backed start-ups. The traditional separation of research and development enshrined by Bush in 1945 is rapidly disappearing, especially in the information-technology industry. Does this mean the days when companies came up with big breakthroughs are over, too?

Not necessarily. The approach to R&D is changing because long-term research was a luxury only a monopoly could afford. In their heyday, the big firms dominated their markets. AT&T ran the telephone network, IBM dominated the mainframe-computer business and Xerox was a synonym for photocopying.

The companies themselves saw the cost of basic scientific research as a small price to pay for such power.

Modern technology firms are much less vertically integrated. They use networks of outsourced suppliers and assemblers, which has led to the splintering of research divisions. Even though big American firms still spend billions of dollars on R&D, none has any intention of filling the shoes left empty by Bell Labs or Xerox PARC. The research and development that Bush tore asunder are once again becoming entwined. Old-fashioned R&D is losing its ampersand.

“The lesson learnt is that you don't isolate researchers,” says Eric Schmidt, the boss of Google, who started his career as a computer scientist at Bell Labs and later at Xerox PARC. The “smart people on the hill” method no longer works, he adds. Instead, researchers have become intellectual mercenaries for product teams: they are there to solve immediate needs.

This view is shared by other industry veterans. “The corporate research labs of the old days are really not going to be the basis of what is new,” says John Seely Brown, the director of Xerox PARC for over a decade until 2000. “This is getting to be a new kind of game.”

On the surface, American innovation has never been stronger. American firms spend around $200 billion on R&D annually, much of it on computing and communications. Microsoft, for example, spent around $6.6 billion last year; IBM and Intel about $6 billion each; and Cisco Systems and Hewlett-Packard (HP) around $4 billion each. Most of this money went into making small incremental improvements and getting new ideas to market fast.

For example, IBM has eight laboratories on three continents, each with its own personality and expertise. At its Zurich Research Laboratory around 300 scientists representing over 20 nationalities concentrate on areas such as microelectronics, nanotechnology and computer security. Only a few years ago researchers were judged on the basis of patents and papers, but today they roll up their shirtsleeves and work alongside the company's consultants, explains Douglas Dykeman, one of the laboratory's managers.

This reflects IBM's transition into “services science”. The services business is becoming commoditised, as hardware did before it, and IBM knows it must add intellectual property to its offerings. Putting its researchers on the case is one way to charge clients a premium.

“Some days I used to sit there thinking ‘does anybody really care?’” recalls Mr Dykeman about some past projects. Now the laboratory has to apply science to real and immediate concerns. Often the distinction between “R” and “D” is blurred. For instance, a recent research paper from the laboratory about the bonding of gold atoms smacks of pure science. But as semiconductors move to the atomic scale, answering this sort of question will solve production problems ten years out.

The new science

In Redmond, Washington, Microsoft Research houses 400 researchers; it boasts another 300 around the world. Nearly all of their budget is spent on commercially orientated projects. In a windowless office Steven Drucker, a researcher on media applications, is unable to get his laptop to work with the projector. So he explains the future of home entertainment with a video on the computer screen.

He envisages a world where people will take telephone calls from their television sets, interact with content online and receive relevant advertisements. But making this vision work technically is hard. Academics, he says, cannot do this, since they continually struggle for funds. This forces them into projects of just one or two years—even shorter than industry horizons. “It's insane,” says Mr Drucker. He reckons it means corporate research can look farther ahead, do bigger things and risk more money for a big payout.

“In the real world, it is not just a big ‘D’ and a big ‘R’—it's a continuum,” explains Rick Rashid, who oversees Microsoft Research worldwide. The company, he says, does perform basic research. “But we also work with our product teams to move those technologies into our products.” Microsoft has a team of a dozen people whose sole responsibility is to handle technology transfer. Sometimes researchers move from the laboratories to work with product teams, as Mr Drucker recently did.

The distinction between development and research is intentionally blurred at HP, epitome of the research-driven organisation. At its base in Palo Alto, the offices of its founders, “Bill” and “Dave”, are preserved in the laboratories where they pioneered products and principles like open-plan cubicles for employees and

“management by walking around”. Among the company's senior scientists is Bernardo Huberman, a physicist and former PARC researcher, whose work bridges computer science, economics and sociology.

Instead of looking at fundamental questions about the universe, Mr Huberman's prolific papers identify how “prediction markets” can be used to identify successful projects inside companies; how to price a unit of grid-computing (broadly the harnessing of the collective processing power of many computers) and how to vie best for internet users' attention. The old model of research, of “putting people in a bubble”, is over, he says. The most interesting research is now done “where technology touches people”.

Having researchers work more closely with customers pays off in other ways. For example, HP's work for DreamWorks Animation SKG, a film studio, required a highly sophisticated video-conferencing system so executives could regularly talk face-to-face without having to leap on an aeroplane. What the HP laboratories came up with was so successful that the company commercialised the system as a product, called Halo. This is now used by other companies, including PepsiCo and AMD, a chipmaker.

Such schemes represent the primacy of “D” over “R”. “Is that a bad thing?” retorts Shane Robison, who oversees HP's technology strategy, with every pore visible on his three-foot-long face over the Halo teleconferencing system. Decisions about investment research are made by betting where the industry is heading, he says. HP still does some basic research, adds Dick Lampman, who heads HP Laboratories, but when people “celebrate the other model, they lose sight of what it takes to take a good idea and make it into an exciting product.”

The fusion of research and development is meant to solve the central shortcoming of Bush's plan: how to turn ideas into commercial innovations. Great ideas may moulder without a way to develop them. In America the link between industry and government-funded research was reinforced in the 1980 Bayh-Dole Act. This expected recipients of federal funding to patent their innovations as an incentive for them to leave the laboratory. So, for example, when Google listed its shares in 2004, Stanford University received around $200m worth since research by Google's co-founders on search algorithms had been partly financed by the National Science Foundation. Moreover, the rise of venture capital has smoothed the progress of new ideas into products.

But inside large companies the transfer has been so difficult that it provided a huge incentive to join the two churches of “R” and “D” together. “The idea devalues itself over time if you don't get it to market quickly,” says Paul Horn, who oversees IBM's research. “Everything we do is aimed at avoiding a ‘handoff’—there is no ‘technology transfer’. It is a bad phrase at IBM.” Research teams stay with their ideas all the way through to manufacturing.

The epitome of this practical emphasis may be Intel. The chipmaker relies on universities for much of its basic science and takes a highly disciplined approach when selecting and overseeing the projects it backs. Staff scientists are intimately familiar with manufacturing. Many of its patents cover making chips, not basic science. Research is better “the closer the development is to the brutal market reality,” says Sean Maloney, an Intel executive. “Our people have that tattooed on their tonsils.”

One reason for the shift towards more commercially minded research in technology companies is that the nature of IT has changed so much. In Bush's time the science that went into computing was itself closer to basic research. By contrast, many of the big scientific questions in computing have been answered—at least well enough for companies to find that innovation emerges from new ways of arranging today's technologies rather than inventing new ones. Dell's innovation was a business model that used extreme supply-chain efficiency to create bespoke computers. Likewise, Apple's iPod is a new interface atop standard industry parts.

Bush's approach also presumed that research was costly, if only because computing machines back then were expensive and huge. Moreover, he presumed that cycle times for development were long.

Researchers as developers

Today, innovation comes more from software than hardware, computing costs are extremely low and development times are very fast—almost immediate, in fact, when the internet is used to deliver them. That explains why the boundary between research and development is blurring most for web-based companies, where competition is fierce and the time to market can be instantaneous.

The Google method means researchers are part of development, says Mr Schmidt. The company employs

very small teams to work on a small number of ideas, some of which may turn into big hits. Failure is an essential part of the process. “The way you say this is: ‘Please fail very quickly—so that you can try again’,” says Mr Schmidt. Its headquarters, the “Googleplex”, is an environment for employees to wander around intellectually. Google has many projects competing for users' attention. By being a free service, and using the internet to reach customers immediately at low cost, online firms like Google can experiment in ways that were once impossible.

Meanwhile at Yahoo!, researchers are also close to the practical needs of the business. At the opening of the company's new European research centre in Barcelona in October, the laboratory took up offices just across the hall from the business and marketing divisions. Yahoo!'s corporate research unit, like others, has hit upon a strategy to tap into fresh ideas and young talent at universities. The laboratory is also located in the same building as the Barcelona Media Innovation Centre, which is affiliated with the nearby Universitat Pompeu Fabra.

According to Mr Brown, the former PARC director and now a senior fellow at the Annenberg Centre for Communication at the University of Southern California, internet companies benefit from a “combinatorial ideation platform”. By this, he means that ideas can be tried out fast, directly on consumers, who can also combine them with ideas of their own to do new, unanticipated things—and all with immediate market feedback.

The post-war R&D model needs updating not simply because of the new way of innovating, but also because companies now have a greater choice of where to shop for ideas. “If you go back to that period of AT&T, there wasn't the same kind of engineering going on at universities, and Bell Labs could not rely on an external cadre of engineers for their research—they really had to do it internally,” says Charles Giancarlo of Cisco.

He admits his company has long been accused of “R&D by M&A”—but he does not see why that should be a problem. Cisco spends $4.3 billion a year on employing over 16,000 engineers around the world, in addition to tapping into the venture-capital industry's start-ups. Basic research inside companies is impossible in a competitive industry, according to Mr Giancarlo. “We might decry this on a public-policy basis, but at least as far as public markets are concerned it is a Darwinian world. You live or die by that.”

Industry's abandonment of the split between R&D comes as computer scientists complain about a decline in basic research or its distortion by commercial influence. The National Science Foundation and DARPA (the Pentagon's research arm), two of the grant-giving institutions inspired directly by Bush's vision, have been chided for turning away from basic research in favour of later-stage work, with an emphasis on homeland security—just as industry has done. At the same time, America's venerated national laboratories are coming under partial industry control.

Some in industry regret the melding of R&D into one activity and the demise of the big corporate laboratory. At IBM, some researchers are not impressed by “services science”. And although Google's engineers can devote 20% of their work-time to their own projects provided it helps the company, the footsoldiers roll their eyes and admit that such time is usually found on Sunday afternoons.

The new model of R&D turns researchers into the shock-troops of innovation. Bell Labs, now a part of France's Alcatel-Lucent, is turning its attention almost entirely towards development. It reached a low point in 2003 when it had only some 1,000 researchers and a $115m budget. Half a century ago it claimed 25,000 researchers and its own physics laboratory. In 2002 Xerox PARC became an independent subsidiary able to provide research services and intellectual property to outside clients, not just its parent.

Some private institutions have sought to enter the field of “basic science with a business plan”, so to speak. But their success remains to be seen. In the 1990s Paul Allen, one of Microsoft's founders, set up Interval Research to great fanfare, but closed it within a decade after spending $100m with little to show. More recently, Nathan Myhrvold, Microsoft's former chief technology officer, created Intellectual Ventures, to come up with futuristic technologies and license them widely. It has filed over 800 patent applications, but has yet to publicise any big innovation.

Perhaps all this would have made Bush weep. “Industry is generally inhibited by preconceived goals, by its own clearly defined standards, and by the constant pressure of commercial necessity,” he wrote in 1945. “Basic research is performed without thought of practical ends.”

But the message from mammon is different. “When I started out running PARC, I thought 99% of the work was creating the innovation, and then throwing it over the transom for dumb marketers to figure out how to market it,” says Mr Brown. “And now I realise that there is at least as much creativity in finding

ways to take the idea to market as coming up with the idea in the first place. I would have spent my time differently had I figured this out early on."

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Markets

Grey Tuesday

Mar 1st 2007 | LONDON AND NEW YORK
From The Economist print edition

Getty Images

An overdue sell-off flusters exchanges and sobers investors

IT WAS almost inevitable something bad would happen. Barely a ripple had disturbed the smooth surface of financial markets since May last year. But on February 27th share prices were suddenly hit by a wave of selling.

It is always possible to find plausible reasons for a sudden stockmarket fall after the event—less easy to pick them beforehand. The immediate catalyst for this week's troubles appeared to be a near-9% fall in the Chinese stockmarket, itself triggered by stories that the authorities were about to clamp down on speculation. But the truth is that investors were simply looking for excuses to take profits.

A decline looked overdue. Wall Street had enjoyed its longest period without a 2% daily fall for more than five decades. Margin debt—the money sharebuyers borrow from brokers—had just passed its previous peak, recorded during the dotcom bubble. Risky assets, from high-yield corporate bonds to emerging-market debt, were offering historically low yields.

When it came, the sell-off was dramatic. At around 3pm New York time on February 27th, the Dow Jones Industrial Average was down by a couple of hundred points. In less than a minute, it plummeted another 200 points—a rate of decline that traders said was unprecedented.

The speed of the fall was caused by a tabulation delay. The data-systems arm of Dow Jones, which calculates the average, had been unable to process orders quickly enough as they surged during the afternoon. At 3pm the firm switched to a back-up system in an effort to unblock the pipe. This did the trick, but caused a massive instantaneous fall in the average as it readjusted after the delay.

This was not the only problem. Floor traders were unable to keep track of computer-driven orders, particularly those selling exchange-traded funds—baskets of stocks linked to an index. At its low, the Dow was down 546 points, among the worst points falls in its history.

None of this was good news for John Thain, the NYSE's chief executive. He was seen on the trading floor just after the 3pm meltdown, looking flustered and spurning interview requests. With competition between traditional exchanges and electronic networks hotter than ever, the last thing he needs is questions over the robustness of the NYSE's technology.

Inevitably, Wall Street set the tone for the rest of the world, with European, Asian and emerging markets falling heavily in its wake. But on February 28th the American market showed signs of stabilising.

Will that be it? Certainly those investors interested in the “fundamentals” can find things to worry about. Tensions over Iran's nuclear programme are still high, and the oil price is $10 a barrel above its recent lows. The recent defaults in the subprime mortgage market may be affecting other bond investors and cutting off credit to the housing market (see article). Some recent American economic data have been weak and Alan Greenspan, the former chairman of the Federal Reserve, has mused publicly about the possibility of a recession.

His successor, Ben Bernanke, did his best to allay fears of an immoderate slowdown. If he is wrong, he can always start lowering interest rates. The “flight to safety” has already caused Treasury bond yields to fall, cutting the borrowing costs of homebuyers.

But it may be the internal dynamics of the markets, not the evolution of the wider economy, that decides whether this is a brief shakeout or the start of a serious correction. Periods of low volatility tend to encourage risk-taking. Hedge funds have a natural inclination to buy higher-yielding (and thus riskier) instruments and sell low-yielding assets, since this delivers a positive income or “carry”. When the market falters, these positions rapidly lose money. For example, the modest rise in the yen—2.3% against the dollar on February 27th—wiped out about half the annual interest gain accruing to investors who sold yen and bought dollars. Those who gambled on the “carry trade” may decide to cut their losses.

As they do so, other investors may hurry to shift their feet. Investment banks use “value-at-risk” models which mean that, when volatility rises, they cut the capital they allocate to trading. This usually means selling assets. So a sudden jump in volatility tends to generate further volatility. “The sell-off was merely a warning shot,” says Chris Watling of Longview Economics, a strategist who recently forecast a correction. “Investors should expect further selling in coming weeks.”

What matters is how many actors have all made the same bet. One of the oldest market mistakes is the assumption that you can get out of a position as easily as you entered into it. According to Goldman Sachs, the latest jump in the Vix (a measure of stockmarket volatility) took it eight standard deviations from its average. If conventional models are correct, such an event should not have happened in the history of the known universe. Then again, the move in energy prices that caused the collapse last year of Amaranth, the hedge fund, was a nine standard-deviation event. Perhaps modellers do not know the universe as well as they would like to think.

This is what makes markets prone to nasty surprises and it explains why investing with borrowed money can be dangerous. If some bank or big hedge fund has been caught out by the sudden sell-off, the events of February 27th could have lasting implications. The stockmarket has seen blacker Tuesdays. But this one may cast a long shadow.

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Buttonwood

Subsiding

Mar 1st 2007
From The Economist print edition

How bond investors are exposed to bad home loans in the subprime market

SOMETIMES financial jargon can be horribly appropriate. The “sub” part of the term “subprime loans” describes an asset class that is sinking fast and dragging investors down with it.

Subprime loans are made to homebuyers who suffer from poor credit ratings, or who lack the cash to put up a big deposit. With interest rates rising and house prices stagnating, life has become much harder for such borrowers.

Figures from the Federal Reserve, the American central bank, show that delinquency rates of residential mortgages reached a three-year high in the fourth quarter of 2006. The spread (the interest-rate margin) on subprime loans written last year has risen from less than two percentage points above Treasury bonds to more than seven.

This is bad news for struggling homebuyers and for investors late into the business. But at first, analysts felt the broader effects would be limited. “The direct macroeconomic effects of subprime stress are likely to be small,” said Goldman Sachs.

Until the sudden spate of selling on February 27th, investors seemed to share that view. The spreads on other types of debt, such as corporate bonds, had barely shifted. But the shares of investment banks (including Goldman) were among the hardest hit by the sell-off, because of their exposure to the loan market.

That market has changed a great deal in the past 15 years, particularly in the repackaging of mortgage loans. A new paper* by Joseph Mason of Drexel University and Joshua Rosner of Graham Fisher & Co, a hedge-fund advisory firm, assesses the results of this repackaging.

It typically occurs in two stages. First, mortgage loans are pooled and used as security for bonds known as residential mortgage-backed securities, or RMBS. In one sense, this is good news; it takes the loans off the balance sheets of the banks that made them and thus disperses risk.

Most investors, however, want to buy the safest portions of the RMBS; those awarded the top AAA rating. These account for some 90% of the RMBS by value.

But someone has to buy the risky bit of the mortgage pool. And those buyers are the issuers of collateralised debt obligations, or CDOs. Such issuers buy portfolios of bonds and loans, and then divide them into tranches, according to risk. They sell those tranches to customers eager to own a diversified bond portfolio.

Artfully sliced these products may be, but the assets underlying them can still go bad. Messrs Mason and Rosner show that nearly 80% of the assets backing CDOs in 2005 were residential mortgage securities. Furthermore, most of those securities were the subprime portions of RMBS, which offer a higher yield.

If the assets backing a CDO default, the holders of the riskiest tranches (known politely as equity and less politely as toxic waste) take the first hit. Those investors are subject to a squaring of risk; owning the riskiest slice of an asset backed by the riskiest kind of mortgages.

Arguably, the dangers are cubed. Seduced by high yields, lenders may not have realised how hairy subprime loans could be. Research has shown that default rates rise sharply when borrowers put up small deposits. Many also have more than one loan secured on the house, which makes bad debts 40-50% more

likely.

Optimists point out that default rates on most mortgages have been low. But Messrs Mason and Rosner retort that this is the result of a deliberate policy by lenders to work through bad debts, rather than foreclose on a home. Such forbearance could merely postpone the problem; the risk of default on rescheduled home loans may be as high as 25%.

These repackaging techniques have encouraged mortgage-writers to make more loans. And the greater availability of credit undoubtedly helped to drive up house prices. Without it, many people would have found a home out of reach. But the virtuous circle may turn vicious.

Investors may balk at the potential losses from CDOs; new issues are starting to dry up. That will reduce the amount of money available to lenders, and thus to homebuyers (in January, new home sales suffered their biggest fall since 1994). Already Freddie Mac, the government sponsored lending giant, has said it will stop buying high-risk mortgage loans, as of September. The absence of buyers could drive house prices down further, reducing the value of other lenders' collateral. The market plunge on February 27th could be a sign that the subprime sell-off is turning into prime-time news.

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* “How Resilient are Mortgage-Backed Securities to Collateralized Obligation Market Disruptions?”

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Private equity

A public offering

Mar 1st 2007 | FRANKFURT, LONDON, MADRID AND PARIS
From The Economist print edition

The kings of capitalism face their subjects

NOT so long ago, most fund managers riding the private-equity wave were squeamish about appearing in public. These days they are popping up on front pages and conference podiums all over the world. Stung by attacks from politicians and union leaders, fund managers are belatedly eager to get their message across. The realm of private equity is suddenly feeling very public—and political—indeed.

This week, a parade of big names—including David Bonderman of Texas Pacific Group, Steve Schwarzman of Blackstone Group and Nigel Doughty of Doughty Hanson—met in Frankfurt for an industry event modestly calling itself “Super Return”. As they gathered, a handful of demonstrators captured the growing public angst. “Super Return means Super Exploitation,” they complained.

As if in reply, dealmakers are now keen to stress that the non-financial returns to private equity are also super. In America the big investors behind the $45-billion leveraged buy-out of TXU, a Texas power company, are claiming the deal is good for consumers, jobs and even global warming. In Britain Tony Blair extolled the benefits of private equity at his monthly press conference this week. This comes on the heels of a series of interviews by Damon Buffini, boss of Permira, a buy-out firm, with a rags-to-riches story that has made him a model for the industry.

In the past “we felt that as long as our clients were happy, and we were getting returns, why should anyone else care,” says Javier Loizaga, head of the European Venture Capital Association (EVCA), a group representing private-equity firms. Now his association is scrambling to find numbers showing that private equity creates jobs and better-run companies.

The private-equity model is under attack not only in America and Europe, but also in places as far-flung as South Africa and Australia. It is accused of lacking transparency and stripping assets, often at the expense of jobs. It is also charged with taking on too much debt to finance deals and enjoying lighter taxes as a result.

These criticisms are overblown, according to the big investors who put their money into private-equity funds. The industry's inscrutability does not bother them: they can get the information they want when they need it. And they believe that mismanaged companies emerge nimbler and fitter from private equity's hands. Indeed, if the politicians fully understood who benefits from private equity, they might back off, according to Danny Truell, who directs investments for the Wellcome Trust, a big British charity. The rewards flow to fund managers, of course, but also to investors, many of whom are pension funds and charities. As for taxes, if the code favours debt over equity, it is the tax laws that need fixing, not private equity.

That said, a growing number of fund managers say they are getting squeamish about private equity's levels of debt. “It is not in the interest of the industry to leverage too much,” because of the pressure it puts on their investments, says Mr Loizaga, who has been doing mid-sized deals in Spain for several decades. But, he adds, funds that turn down the juiciest debt packages pushed by lenders risk losing the deal to someone else. Industry leaders say the gearing on many deals has risen from five times earnings (before interest and tax) to eight. This debt is now more dispersed, however. Fewer loans are held by banks, perhaps only 20%, with much of the rest held by specialised credit funds. The risk is being spread more widely.

Behind the scenes, an argument is under way about who is most exposed. The bigger funds say the mid-market is flooded with new money: the only sensible prices nowadays lie in the big deals (which only the large funds can do). Smaller firms reply that the industry's bread and butter is turning around unsexy family firms, not using ever more complicated financial engineering to make trophy acquisitions. These

more modest outfits wince at the criticism their flashier brethren are attracting.

For the moment, though, dealmakers big and small are trying to stand united in the face of an onslaught. They are used to a world in which money talks. But so far, Mr Schwarzman said in Germany, “our arguments are falling on deaf ears.”

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ABN AMRO

Dutch disease

Mar 1st 2007 | FRANKFURT
From The Economist print edition

An unseemly rush to defend a national champion

CENTRAL bankers in the 13 members of the euro are supposed to think European. So Nout Wellink, governor of the Dutch central bank, should have been grateful rather than irritated when the Children's Investment Fund (TCI), a London-based hedge fund, offered a bit of timely prompting to ABN AMRO, a big Dutch bank, in which it holds a 1% stake. In a letter to the bank, the Londoners proposed five big items for discussion at the next shareholders' meeting on April 26th. It wants the Dutch to cut costs and to consider the sale of divisions, or even the whole bank.

In a newspaper interview, Mr Wellink ranted that TCI's demands could threaten financial stability, with repercussions throughout Europe. “Work out what bits the bank should sell, and send the proceeds to us,” was how he characterised the hedge fund's position. A spokesman for Charlie McCreevy, Europe's internal-market commissioner, warned the Dutch authorities not to interfere with legitimate capital-market activity.

Reuters

Much ado about Nout

Far from selling bits of itself, ABN AMRO still looks prepared to buy. Even as it struggles to digest Antonveneta, an Italian bank it recently purchased, it has been distracted by a crude powerplay at Capitalia, another Italian bank in which it has an 8.6% stake. Capitalia's old-school chairman, Cesare Geronzi, has tried to oust his successful young chief executive, Matteo Arpe. TCI's letter, which warned ABN AMRO not to pursue Capitalia for now, preceded the crucial board meeting at which Mr Arpe survived, despite Mr Geronzi's efforts.

Hedge funds have a reputation for stirring things up. But TCI's letter reflects widely held worries about ABN AMRO. In a January research paper Merrill Lynch, an investment bank, pointed out the dangers for ABN AMRO of attempting to buy a second big Italian bank. It drew a parallel with NatWest's ill-fated attempt at an insurance takeover in 1999. That failure so weakened its stock price and the reputation of its management that NatWest was itself acquired by Royal Bank of Scotland.

Why then did the hedge fund's letter create such a fuss? ABN AMRO, a sprawling bank with assets in over 50 countries, is akin to a national champion. It is also one of the few European banks that has taken a big step in cross-border consolidation. That has been somewhat at the expense of shareholder returns. Buying Antonveneta, for example, drew it into a two-year battle with Italy's then central bank governor, Antonio Fazio, for little reward thus far.

Having suffered at the hands of Mr Fazio, ABN AMRO now finds itself defended by its own lofty protector. But, whereas Mr Fazio's interventions cost him his reputation and eventually his job, Mr Wellink is unlikely to venture so far in the Dutch bank's defence.

Can ABN AMRO defend itself? In 2004 Rijkman Groenink, the chief executive, announced a “mid-market strategy”, relying on the bank's core strengths and regions, and abandoning its ambition to be at the top of the global pile. It has good potential cashflows but has failed to curb costs.

TCI's clarion-call has been applauded by some shareholders. There are rumours that potential buyers, such as Citigroup and some big British and Spanish banks, are eyeing ABN AMRO, in whole or in part. Mr Groenink has already earmarked 2007 as a “year of delivery”. The question is what will he deliver: better returns, a spate of spin-offs, or the entire bank?

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Citigroup

Bitigroup

Mar 1st 2007
From The Economist print edition

The lumbering giant lumbers on

ABN AMRO is not the only big, floundering bank under fire. Across the Atlantic, disgruntled investors continue to call for a shake-up—or even a break-up—of Citigroup, the world's biggest bank. Its share price has languished for the past five years and shareholders are restless. On February 25th it said it had hired Gary Crittenden, the well-regarded chief financial officer of American Express, to fill the same role at Citi. The person he replaces, Sallie Krawcheck, was a former research analyst with surprisingly little experience in the “financial” bits of a chief financial officer's job. You might think shareholders would be pleased. In fact, the shares drooped.

This was partly because of the news, disclosed late on February 23rd, that the Securities and Exchange Commission (SEC) was investigating the way Citi handled the taxes that arose from its acquisition in 2000 of Associates First Capital, a consumer-finance firm. But investors were also dismayed by the broader implications of Mr Crittenden's solid, but uninspiring, appointment. Chuck Prince, Citi's boss, is staying put. And so is his strategy.

Mr Prince's predecessor, Sandy Weill, oversaw years of hard-charging growth. But Citi now seems to have lost its way. It has trailed behind rivals that dedicate themselves either to investment banking or to retail, but not to both. Its costs have ballooned. Critics snipe that, having seen a lot of its managers leave, Citi's top brass lacks experience. Mr Prince is doing his best to answer them. Installing Mr Crittenden adds depth to Citi's executive suite, and he is busy working on a cost-cutting initiative, to be unveiled this spring.

But complaints linger about Mr Prince's strategy and how soon it will pay off. The chief executive has set out to transform Citi from a bank that knew how to grow only through acquisitions to one that grows “organically”.

This is something his predecessor never accomplished, perhaps because he doubted it could be done. “Sandy Weill had little faith that he could grow Citi internally,” explains Dick Bove of Punk Ziegel, an investment bank, “so he consistently ripped capital out of Citi to buy growth elsewhere.” As long as the buying binge went on, this worked handsomely. But managing the bits and pieces he acquired became increasingly difficult. A series of regulatory snafus prompted Mr Weill to bring in Mr Prince, a lawyer by background, to tidy up.

Last month Mr Prince ditched the name “Citigroup” for the punchier “Citi”, and decided to fold the firm's famous red umbrella once and for all. Mr Prince wants to make Citi one cohesive company, rather than a jumbled group amassed under a single canopy.

Rebranding a company may be easy; restructuring one is not. “Old” Citi's shadow is proving hard to escape. It is not just the SEC's probe into Associates, which was described in Mr Weill's autobiography as one of the worst purchases of his career. Rocketing expenses, Mr Prince's biggest problem, have their origin in a failure to invest in the technology and infrastructure needed to fuse Citi into a coherent whole. Mr Prince is also intent on investing in Citi's international presence, which should be its greatest strength. He aims to increase international revenues to 60% of the total, from around 45% today, through internal growth and small acquisitions.

The latest effort is in Japan. Citi is reportedly trying to boost its small holding in Nikko Cordial, Japan's third-biggest broking firm, which is reeling from an accounting scandal. This would give Citi a stake in Nikko's branch network and well run asset-management business. Old Citi was forced to close its private-banking operations in Japan in 2004, after serious breaches of anti-money-laundering rules. Controlling Nikko might mark a new start for a new Citi.

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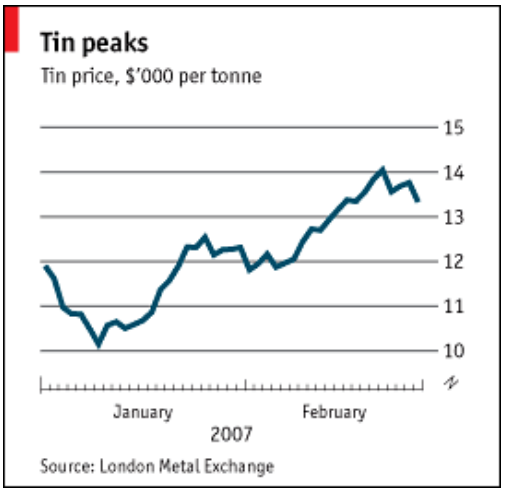
Indonesian mining

Pushing tin

Mar 1st 2007 | JAKARTA
From The Economist print edition

The metal reaches its highest price in decades

NOT the most glamorous of metals, tin seems to tarnish whatever it is linked with in the popular mind, whether it be tin-eared musicians, tinpot dictators or tinhorn braggarts. But the base metal is now shining on the commodities markets. On February 22nd a tonne fetched over $14,000 on the London Metal Exchange for the first time in more than 20 years.



This is partly due to demand. Tin has replaced lead, which is more toxic, in a lot of soldering. China's booming market has also turned the country into a net importer of the metal. But tin's high price owes more to the other blade of the scissors.

The world's biggest exporter of tin is Indonesia, which accounted for about a third of global production in 2006. Last year the government declared it would overhaul the industry, but few analysts took it seriously. Now they are paying the closest possible attention. On February 23rd harsh new measures came into effect, raising standards, taming wildcat miners—and strangling supply.

To export the metal, companies must now obtain a slew of permits, manage their environmental impact, pay royalties in advance and ensure that all shipments meet the London exchange's purity standard of 99.85%. Only two of the country's 39 operators, Timah and Koba Tin are expected to be able to comply. Together they account for just over half the country's output, which last year amounted to 120,000 tonnes.

Eventually, government officials say, up to a dozen other producers might be able to satisfy the new rules, but not for several months. Indonesia's production is therefore expected to fall by at least a third this year. Koba, which last year exported 25,000 tonnes, suspended exports last month after three of its senior directors were arrested for allegedly buying ore from outside the company's designated area of operations.

Indonesia's reform drive began in October with a massive crackdown on illegal smelters on the island of Bangka, where most of the industry is based. Thirty-seven smelters (all but Timah and Koba) were shut virtually overnight because they lacked proper licences and deprived the government of export royalties. The illegal exporters had been smuggling tin to neighbouring countries, where they sold it cheaply, undercutting the market by as much as $300 a tonne. The government's autumn offensive pushed prices up temporarily, but traders still doubted the administration's will to clamp down. Now they doubt only its capacity to do so. It sent a team to Bangka to help the illegal smelters clean up their act. When they realised the extent of their task, prices rose again.

The tin market took another dent from the other side of the world last month, as Bolivia decided to renationalise Empresa Metalúrgica Vinto, the world's fourth-largest smelter. That decision has yet to disrupt production and analysts are not expecting any further such shocks. But with demand now greatly exceeding supply, it would not take much to cause further jolts. Closer attention is also being paid to fresh whisperings in Jakarta's corridors of power. Which of its myriad commodities will Indonesia decide to reform next?

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The World Bank and IMF

Sister-talk

Mar 1st 2007
From The Economist print edition

Relationship counselling for the fund and the bank

CONCEIVED at the same Bretton Woods conference in 1944, the IMF and the World Bank are neither identical twins, nor always very fraternal. The fund is buttoned-up, hierarchical and preoccupied with hard money and sound budgets. Its sister, by contrast, is loose-limbed, sprawling and a bit of a dilettante, worrying about greenery, equality and empowerment, as well as poverty.

Inevitably, they squabble. In moments of crisis, the bank is rudely press-ganged into the fund's rescue missions. In today's quieter interludes, the fund itches to offer help, on things such as pensions and insurance, that the bank is perhaps better placed to provide.

Last March the two sisters asked Pedro Malan, Brazil's former finance minister, and five other notables to examine their relations at length. This week they released their report. It concludes that the fund and the bank should talk to each other more and step on each other's toes less.

They should swap staff, and their leaders should make joint plans about the future. But in their operations, a bit of distance would help. The report sees little reason for the fund to provide long-term loans to countries in deep poverty but not in acute crisis. The money is supposed to meet a “protracted balance-of-payments need”. But this concept is so vague as to be almost indistinguishable from development aid, the report argues.

The amount of this lending has fallen in recent years. But it has grown as a share of the fund's shrinking portfolio. The IMF's natural clients in emerging Asia and Latin America have repaid their loans and amassed their own defences against financial crises. This has left the fund all suited up with nowhere to go. The bank's mission, on the other hand, now spans all the world's least tractable problems. It is in no danger of ever putting itself out of a job.

The bank has also begun to look beyond policies at the deep, social “institutions” that underpin prosperity or poverty. This reflects a turn in the thinking of academic economists, who are now keen to excavate a country's political roots in search of explanations of their diverging fortunes.

One exemplar of this approach is Simon Johnson of the Massachusetts Institute of Technology. No surprise then that he will now take up a big job on one side of “19th street”, which separates the headquarters of the two siblings.

What is slightly odd is the sister who picked him. The fund has been trying for months to replace Raghuram Rajan, its chief economist. The job was reportedly offered to Olivier Blanchard, one of the great living macroeconomists, and Elhanan Helpman, a great trade economist. Eventually it fell to Mr Johnson.

He has recently worked under Mr Rajan, but he is no particular authority on misaligned exchange rates or capital-flow reversals. In fact, his appointment is perhaps a symbol of the fund's wider predicament. Cursed by uninteresting times and unsure of its role, it cannot count on attracting the people it wants. It therefore finds itself courting an economist who would look more at home across the street. Having fallen out of fashion, the fund has started trying on its sister's clothes.

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Economics focus

Labour bares its gums

Mar 1st 2007
From The Economist print edition

The not very frightening tightening of rich countries' labour markets

THIS has not been a good week for the capitalists. But the workers have been enjoying a few scraps of welcome news. In Germany, for example, unemployment fell again, to 7.4% in January (on an internationally comparable basis) or 9.3% in February (on the national labour office's definition). The rate is still high however you look at it, but its decline has been impressive. In the past year the number of unemployed Germans has fallen by more than half a million. As a result, Germany's unions are getting a bit uppity. This week IG Metall, the country's biggest trade union, confirmed its pay demand for the 12 months from April 1st: 6.5%, *bitte*, for 3.4m engineering and electrical workers, the union's boldest request for five years.

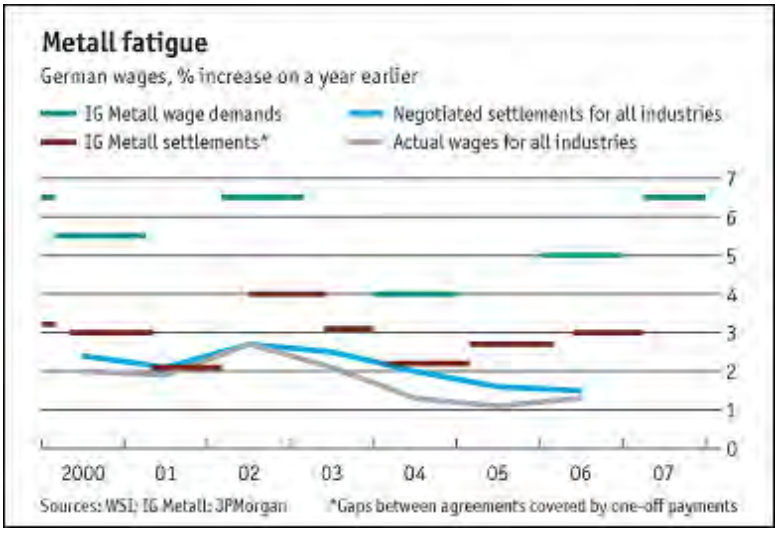
Labour markets are looking a bit tighter elsewhere too. Silvia Pepino of JPMorgan thinks Italy is worth watching: negotiated wages, she estimates, will rise by 3.1% this year, up from 2.8% in 2006. In the euro zone as a whole, the unemployment rate in January was 7.4%, a percentage point or so below the rate at which, on past form, you might expect inflationary pressure to rise. Meanwhile, America's jobless rate, 4.6% in January, has been head-scratchingly low for some time; and measures of labour costs, such as the annual growth of hourly compensation or the employment cost index compiled by the Bureau of Labour Statistics, have ticked up.

By how much wages will rise—and whether they are passed through into prices—is an open question. The European Central Bank (ECB) is taking no chances. It will almost certainly raise interest rates by a quarter of a percentage point, to 3.75%, on March 8th. The prospect of higher wage increases is one justification; others include the fastest money-supply growth for 17 years, reported this week. In America the Federal Reserve seems less worried. The economy has slowed, although not by enough to alarm the central bank. Monetary policy in America is already tighter than in the euro area. And the Fed may have concluded that American inflation is less sensitive than it was to changes in the rate of unemployment. The same may be true in the euro zone too, but the ECB is not yet ready to make that leap of faith.

For several years, labour's slice of the economic cake has been shrinking in many rich countries. According to the OECD, wages' share of American business-sector income has fallen from 73% to 63% in the past quarter of a century. In both France and Italy labour's share has dropped from around 80% to about 60%, although it has picked up a little since 2000. In Germany it has gone from around 70% to below 60%, falling sharply in the past few years.

The forces that have held down wages have not gone away. That said, some detect a change in the wind. Stephen Roach, the chief economist of Morgan Stanley, notes labour's loss of bargaining power as union membership has declined, China and India have added millions of workers to global labour supply and information technology has displaced workers from services as well as manufacturing. But he sees signs of a political backlash, at least in America, where Congress is heading towards the first increase in the federal minimum wage since 1997. This week, after *The Economist* went to press, the House of Representatives was due to vote on a bill that would allow a company's workers to form a union if a majority of them signs cards in favour, with no need for a secret ballot.

In Germany IG Metall thinks enough is enough. Thanks to the good health of Germany's engineering industry, the union may secure its best deal for some years: economists at investment banks reckon on 4% or so. But although the engineering industry is often seen as the bellwether for German wage growth, the average German worker is likely to get much less than whatever the giant union and employers agree to. Recently, negotiated settlements in other industries have been lower than in engineering (see chart). And actual wage growth has been slower still, not even keeping up with inflation.



German wage-setting has become less centralised and the labour market freer, at least at the margins. The number of generally binding wage agreements fell from 627 in 1995 to 446 last year, according to the Institute of Social and Economic Research, or WSI, a union-financed research body. Deregulation has led to a sprouting of part-time and temporary employment, in which people have less job protection and less bargaining power than those in full-time, permanent work.

Meanwhile, in the boardroom

Labour may be getting a bit greedier than before, but it is still largely without teeth. As a result, European firms are expecting strong demand for their products to lead to another year of handsome profits growth. The same is not being said of their American counterparts, now that the economy is slowing. After 14 quarters in which the profits of companies in the S&P 500 have grown at a double-digit rate, their best quarters may now be behind them. According to Morgan Stanley, the forecast for this quarter is growth of only 4% or so, year on year.

Indeed, according to Albert Edwards of Dresdner Kleinwort, recent history may not even be as good as it seemed. Aggregate profits growth has been flattered by the performance of Wall Street firms and distorted by one-off changes in the accounting treatment of inventory profits and depreciation. Strip these effects out, and the share of profits in GDP is still near a record high, but is not off the chart. Without the accounting changes and the effects of lower interest payments, profits have grown no more spectacularly in the past five years than in 1993-97.

Strong jobs and wage growth helps keep consumer demand going, of course. In America rising employment and pay have done exactly that, pushing the economy along even as the housing market has faltered. In Europe, although wage restraint has kept costs down and employment up, especially in Germany, it has also kept consumer spending down. A little more in the pay-packet may thus be no bad thing, even for the capitalists.

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DNA tracking

Conservation à la carte

Mar 1st 2007
From The Economist print edition

How seal penises, elephant dung and smashed ivory are helping geneticists pinpoint the poaching of protected species

Reuters

IN THE mid-1990s a group of Canadians from the small city of Guelph travelled around the world in search of seal penises. Chopped into cross sections, dried and crushed as a red-brown powder, or soaked in wine with bits of plant, these were on sale in shops from Bangkok, Hong Kong and Shanghai to the metropolises of North America. There was little reason to doubt the products had at one time been attached to an unlucky pinniped. But the DNA told a different story. Every third penis bought by the researchers came not from a seal but a different creature, such as cattle, water buffalo and an animal with a similar genetic code to an African wild dog. Aphrodisiac-buyer, beware.

Geneticists have since shown that people buying animal products are often duped. Alligator is sold as turtle meat by Louisiana's wholesalers. Catfish and tilapia are served as grouper and snapper in Florida's restaurants. Similar analyses have detected protected species in the marketplace. The Canadian researchers, for example, also showed that phalluses from protected Australian fur seals were sold among those of legally hunted species. As the science improves, geneticists are learning to tell whence, as well as from what animal, the remains came. This is helping them to identify exactly where illegal poaching has taken place so that others can clamp down on it.

Samuel Wasser of the University of Washington, in Seattle, is one such genetic detective. With his academic colleagues and a workmate from Interpol, he has tracked the largest-ever seizure of contraband ivory to its source. As the team describes in this week's *Proceedings of the National Academy of Sciences*, its work persuaded authorities who had been convinced the tusks originated from many countries that they actually came from a single area around the Zambian savannah. Zambia's director of wildlife was replaced and its courts have begun to impose harsher sentences for ivory smugglers.

Taking to tusk

Dr Wasser's detective work started with elephant dung. This contains oodles of cells that are brushed off the walls of the intestine during digestion. He looked for 16 sections in the DNA of the cells and used what he found to build a map of African-elephant genetics. He used geographic patterns in genetic variation to estimate the likely DNA sequences of elephants from places that had not provided dung.

Next came innovations in ivory smashing. The outer layer of an elephant tusk is packed with dead cells.

Because simple crushing destroys the DNA in those cells by overheating it, Dr Wasser experimented with cooling the ivory as he crushed it. He popped an ivory lump slightly larger than a pill together with a magnet into a tube with metal plugs at either end. He then immersed the whole thing in liquid nitrogen and rattled the magnet rapidly to and fro, smashing the ivory against the plugs.

All 37 tusks that Dr Wasser tested matched the elephant genetics of Zambia and the region slightly outside its borders. It thus seems reasonable to assume that all the ivory in the haul, made in 2002, came from elephants shot locally. This conclusion is an embarrassment to the country, which had asked international regulators for the right to a one-off sale of its ivory stockpile just before the seizure. Zambia had asserted in its application that no more than 135 elephants had been illegally killed within its borders in a decade. Yet the researchers think that many thousands of elephants died for the seized shipment alone and more illegal ivory has since been discovered.

Elephants are not the only animals to benefit from new DNA techniques. Mahmood Shivji of Nova Southeastern University in Dania Beach, Florida, is using genetics to conserve sharks. His method is avant-garde because it eliminates the sequencing of DNA to keep the analysis cheap and quick.

Before a scrap of DNA can be sequenced, it needs to be extracted from a cell and then copied many times to create enough for experiments. Usually, to work out which species a sample came from, researchers copy a particular section of DNA and then compare the sequence to a reference library. But Dr Shivji thinks that copying different bits of DNA could also work.

In 2005 he found a short stretch of DNA for each of 14 species of shark that was unique to each one. He then developed an initiator molecule for each stretch that would make thousands of copies of that stretch if exposed to a small sample of it. The technique relies on each unique stretch of code being a different length. When the copied DNA is drawn through jelly using an electric current, the researchers can tell how long it is—and thus to which species it corresponds. By throwing all 14 initiators into a test sample, Dr Shivji can thus identify which shark species it contains.

Recently Dr Shivji has found stretches of DNA unique to subpopulations of sand tiger shark, and added them into the soup. This means he can now tell legally caught Brazilian sand tiger sharks from those protected in American waters, and can catch fibbing fishermen. The principle would work, he says, for any species with a genetic structure to its population. Elephants and seals can breathe a little more easily.

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Medicinal compounds

Joint action

Mar 1st 2007
From The Economist print edition

A victory for American cannabis researchers

FOR almost six years Lyle Craker, a researcher who studies medicinal plants at the University of Massachusetts, has been trying to grow pot. Quite a long time, one might think, for a professor of agronomy—his students, presumably, have far less trouble. The difficulty for Dr Craker, though, is that he would like to grow marijuana legally, but the Drug Enforcement Administration (DEA) has so far refused to give him a licence.

Last month a judge appointed by the Department of Justice recommended that it would be in the public interest for Dr Craker to grow the drug. Mary Ellen Bittner said that the government's monopoly on the legal growing of cannabis is hindering legitimate research and that there is a need for a second licensed facility to grow and supply it to authorised researchers.

Dr Craker's case is backed by the American Civil Liberties Union and the Multidisciplinary Association for Psychedelic Studies, a not-for-profit group that supports research into the medicinal benefits of unapproved drugs. Lawyers for the groups argued that if cannabis is to be successfully licensed as a medicine by the Food and Drug Administration, a stable and secure supply is necessary. Moreover this supply is not available from the National Institute on Drug Abuse, the only body licensed by the DEA to grow it.

The lawyers pointed to the case of Donald Abrams, a professor of clinical medicine at the University of California, San Francisco. He tried for many years to get cannabis from the national institute in order to conduct research on how it might help AIDS patients. This research was approved by all the necessary authorities—yet he was still refused cannabis. Later, when he changed his research to investigate whether it was dangerous for AIDS patients, his demand was supplied.

Why is there such resistance? The DEA declined to comment on the case because it is ongoing. However Allen Hopper, a senior attorney based in Santa Cruz who works for the American Civil Liberties Union, says that the reasons for the lack of supply are political rather than scientific.

Dr Craker's fight is by no means over. The decision on whether he can have his licence still rests with the deputy administrator of the DEA. The agency's decision must be as carefully argued as the judicial ruling. Even if it turns down Dr Craker's application, he will be free to take the decision to a court of appeal.

The grass elsewhere is most certainly greener. The British government has encouraged research into cannabis medicines, with the result that a new drug, Sativex, based on an extract of cannabis, is now being used for the relief of nerve pain by multiple-sclerosis patients in Britain, Canada and Spain.

In January GW Pharmaceuticals, the British producer of Sativex, announced research which suggests that a version of the drug might relieve pain in conditions other than multiple sclerosis. Back in America, an article published last month in the journal *Neurology* showed that smoking cannabis relieved chronic HIV-associated nerve pain—a condition that is often impervious to other treatments.

For a long time many politicians in America have argued that cannabis has no proven medicinal value. At the same time, legitimate research has been hindered by supply problems. The only way to resolve whether marijuana has useful medical properties is to test it. The DEA should grant Dr Craker his licence.

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About sponsorship

Anthropology

Pillars of the community

Mar 1st 2007
From The Economist print edition

The oldest solar observatory in South America

THAT the Inca people of South America worshipped the sun is well known. The most famous temples dating from the Inca period in the region that is now Peru are dedicated to Inti, the sun god. Now archaeologists have found evidence that the Chavìn people who lived in the same area more than 1,500 years earlier were also engaged in a sophisticated sun cult.

Ivan Ghezzi of the Pontifical Catholic University of Peru and Clive Ruggles of the University of Leicester, in Britain, examined a place called Chankillo on the north-western coast of Peru. The Chavìn civilisation had a settlement there dating from 350BC. The researchers uncovered evidence that the elite of this civilisation tracked the movement of the sun throughout the year.

The observatory that allowed community leaders to do so consisted of 13 towers that are arranged in almost a straight line running from north to south along the ridge of a nearby hill. The towers vary greatly in height and width but the distance between each one is almost identical, at about five metres. Dr Ghezzi and Dr Ruggles identified two observation points, one on either side of the ridge, from where the midwinter sun would appear to set at one end of the string of towers and the midsummer sun would appear to set at the other end. Using global-positioning-system technology the pair then confirmed this interpretation. They think the system would have been accurate to within two or three days per year.

They then took a closer look at the areas around these observation points. They describe one of these, to the west of the ridge, as unique. A corridor some 40 metres long with walls more than 2 metres high had been carefully constructed along the outside of a building and painted white. At one end was an opening, but access to the corridor was restricted by a wall built across this entrance.

At the other end was an opening to an observation point that faces the line of towers some 235 metres away. Unlike every other door found at Chankillo, this opening has no fixtures upon which to attach a wooden door. Moreover fragments of pottery, shells and stone tools were discovered there, whereas they were not found near any other door at Chankillo. Dr Ghezzi and Dr Ruggles think that this is evidence of offerings made at solstices.

At the corresponding place to the east of the ridge, the researchers found a small, isolated building in the middle of a large, open space. It contained a second doorway, also with restricted access. However this area is not so well preserved, and they were unable to confirm it as a second vantage point. The work is published in this week's *Science*.

Because access to the observation points was restricted, Dr Ghezzi and Dr Ruggles argue that some sort of hierarchy must have existed, and that those who were able to observe the setting sun and announce its happening would have had the power to preside over the associated rituals. The presence nearby of places that could have hosted ceremonial feasts, complete with midden heaps containing the remains of serving vessels, ceramic panpipes and abundant leftover maize, adds grist to their mill.

Dr Ghezzi and Dr Ruggles point to the existence of ceramic warrior figures found at Chankillo to support their thesis that there was an elite class in Chavìn society. They believe that sun worship would have helped to legitimise its authority. This, in turn, suggests that the 13 towers of Chankillo not only form the oldest solar observatory to have been found in South America so far but are also evidence of an even older sun cult.

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About sponsorship

Psychology

The big turn off

Mar 1st 2007
From The Economist print edition

Using sex to sell a product does not work—particularly for women

SEXUAL allure is often hinted as being the prize for buying this or that. Yet advertising wares during commercial breaks in programmes with an erotic theme can be tricky: the minds of viewers tend to be preoccupied with what they have just seen and the advertisement is ignored. New research now suggests that even if the commercial is made sexually enticing, people still fail to remember it.

Ellie Parker and Adrian Furnham of University College London devised an experiment to test three ideas. The first was to confirm that men and women alike would struggle to remember the brand of a product that was advertised during a break in a programme that contained sex. The second was that commercials that had an erotic element would be recalled more readily than those that did not. Finally they wanted to know whether people would remember the advertisement more easily if its theme contrasted with the programme into which it had been inserted.

They recruited 60 young adults and divided them into four groups. The first and third groups were treated to an episode of “Sex and the City” called “Was it good for you?” in which the four female characters try to ascertain whether they are good in bed. It includes kissing, foreplay, nudity and sex scenes, and a discussion of the merits of sex, sexual failings and homosexuality. The second and fourth groups were shown an episode of “Malcolm in the Middle”, about the second-eldest of three boys raised at home in a dysfunctional family. It contained no such titillating material.

During a commercial break in the screenings, the researchers showed the first and second groups a series of six advertisements for products including shampoo, perfume and beer, all of which played on sex. The third and fourth groups were also shown a series of six advertisements for the same type of products that did not employ eroticism. They then asked their subjects about what they had seen. The results are published in the March issue of *Applied Cognitive Psychology*.

Those who had watched “Sex in the City” could remember little other than the programme. They were less able to name which brands had been advertised than were the groups that had watched “Malcolm in the Middle”, whether or not the advertisement tried to be sexy. Even when the researchers prompted their recall, by naming the type of product that had been advertised, the viewers of “Sex in the City” failed to remember what they had seen, compared with the groups that had seen more mundane scenes.

To test the second hypothesis, the researchers compared the recollections of those who had seen the advertisements that used the promise of sexual allure with those of the people who saw advertisements that did not titillate. They found no significant difference between the two groups. There was, however, a difference between the sexes: men were more likely to remember sexual advertisements (albeit not the brand advertised) whereas women were more likely to remember non-sexual advertisements.

Finally the researchers tested to see whether the people who had watched “Sex in the City” combined with non-sexual commercials and those who had watched “Malcolm in the Middle” combined with sexual commercials remembered what was being advertised better than those shown more homogenous fare. Again, they found no significant difference between the two groups; this time, men and women reacted in the same way.

Earlier work has suggested that sex and violence in television programmes deter people from paying attention to advertisements, but speculated that this may be overcome by using sex in the commercials as well. The new work suggests that this view is mistaken. It would appear that sex does not sell anything other than itself.

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About sponsorship

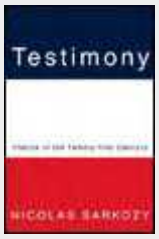
The French election

America's friend

Mar 1st 2007
From The Economist print edition

Is France ready for Nicolas Sarkozy?

Testimony: France in the Twenty-First Century
By Nicolas Sarkozy



Pantheon Books; 272 pages; $24.95.
Harriman House; £16.99

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Eyevine

WHAT to expect from a book, published in English, by a French politician and Gaullist presidential candidate? Erudite allusions, lyrical prose, philosophical musings about French *gloire* and *patrie*? This is not that book. But, then again, Nicolas Sarkozy is no ordinary French politician.

“Testimony” is more than just the English translation of “Témoignage”, the bestselling volume published last summer by France's interior minister and leading candidate on the right for the presidential elections on April 22nd and May 6th. It is a text remodelled to seduce an American readership, which blends the bold policy ideas from the French version with autobiographical detail from an earlier work, “Libre”. The fondness for America that marks “Testimony” is unapologetic. In the opening paragraph Mr Sarkozy calls America “the greatest democracy in the world”. He elaborates periodically: “If I had to choose, I feel closer to American society than to a lot of others around the world.”

From Charles de Gaulle to Jacques Chirac, latent or explicit anti-Americanism has been a defining foreign-policy doctrine for successive French presidents. This is why Mr Sarkozy's words will both startle and soothe American ears. He not only advocates a fresh start for Franco-American relations. He also

declares, more strongly than he did in the French version, that he feels “close to Israel”; he refuses to rule out any option in dealing with Iran's nuclear ambitions; and he urges a less forgiving stance towards Russia and China.

Mr Sarkozy's unsparing criticism of contemporary French policy is not limited to foreign affairs. He laments a French culture where work is unvalued, effort unrewarded and material success deemed suspect. “France has been discouraging initiative and punishing success for the past 25 years,” he writes. “And the main consequence of preventing the most dynamic members of society from getting rich is to make everyone else poor.” He advocates an overhaul on many fronts: looser labour laws, fewer taxes, fewer special pension privileges, fewer civil servants and more autonomous universities as well as better opportunities for ethnic minorities.

A more meritocratic, more open, less regulated France would, in his eyes, be a more prosperous and confident France that would be able to count again in the world. “It is precisely because we refuse to address our problems head-on that our flame is diminishing in the eyes of others,” he argues. “It's why other nations' respect for France is declining.”

One of the curiosities of this book is that the politician who has been so refreshingly candid in his denunciation of decades of French political mismanagement has himself been a member of Mr Chirac's government since 2002. He also had a two-year spell, in 1993-95, as a junior minister. Elected as a municipal councillor in 1977, he has spent fully three decades in French politics.

But this is election time in France. Mr Sarkozy needs to appear fresh and novel and, above all, to be different from Mr Chirac, who has been president for the past 12 years. In a section devoted to his strained relations with his one-time mentor, Mr Sarkozy pays him the palest of tributes. What he manages to admire in Mr Chirac are not achievements or policies, but personal qualities: “his energy, his tenacity, his force of character when faced with adversity”.

As it happens, and as the author himself half-recognises in an aside, these are characteristics that Mr Chirac shares with none other than Mr Sarkozy. The man who emerges from these pages is exactly that: energetic, tenacious, forceful in the face of adversity. He appears driven, pragmatic, courageous, non-ideological. This book is not a work of stylistic elegance. Its sentences are short and the prose is often flat. But there is a sleeves-rolled-up urgency to it: here, it seems to say, is a man ready to take on the French. The question is whether the French are ready to take on Mr Sarkozy.

Testimony: France in the Twenty-First Century.
By Nicolas Sarkozy.
Pantheon Books; 272 pages; $24.95.
Harriman House; £16.99

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About sponsorship

Seventeenth-century England

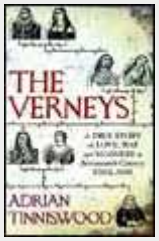
Meet the family

Mar 1st 2007
From The Economist print edition

THE Verneys popped up everywhere in Stuart England. Sir Edmund rode into battle at Edgehill as Charles I's standard bearer (unfortunately he did not ride out again, dying there instead in one of the civil war's great set pieces). His son, Sir Ralph, was a model country squire and member of Parliament. In the next generation John Verney became a wealthy Levant merchant trading in places that, until recently, had lain at the outer edge of the known world. As Britain's fortunes expanded, contracted, changed shape and took on new colours, then so, inevitably, did those of the Verneys.

Adrian Tinniswood is able to chart the family's activities over such a long period thanks to the extraordinary archive of correspondence, both official and deeply personal, that it left behind. In Claydon House, the handsome Buckinghamshire manor that came to the Verneys in the 1460s, over 100,000 papers were stored in tottering piles. A third of these related to the 17th century alone, the period in which Mr Tinniswood is especially interested. Buried in these bundles you will find not simply a new take on national matters—the civil war, the Great Fire of London, the Protestant invasion from the Netherlands of William and Mary—but also the small, everyday details of cheesemaking, sword-buying and scandal-mongering that constituted gentry life in Stuart England.

The Verneys: A True Story of Love, War and Madness in Seventeenth-Century England
By Adrian Tinniswood



Jonathan Cape; 570 pages; £25. To be published in America by Riverhead Books in May

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The Verneys were a variable lot. Patriarchs such as Sir Edmund and his successor, Sir Ralph, tended to be principled if parochial John Bulls. But the younger sons and the flocks of daughters, nieces and cousins were much more wayward. There was, for instance, Thomas Verney, Ralph's brother, who managed to combine ostentatious Christianity with utter knavery. His speciality was re-interpreting the Gospel to his own advantage. Needing money for a new suit, he reminded Ralph that God had clothed Abraham. Requiring a financial fillip, he mentioned Christ's injunction about brotherly love at the Last Supper. When Thomas finally was forced to flee his creditors and lie low in Wales and Ireland, it was a relief for everyone to be able to put away their Bibles and their purses.

In their own way too the Verney women were just as much trouble. Mun Verney, Ralph's heir, had insisted on marrying his second cousin Mary, whom he described, not especially flatteringly, as “a solid, judicious wench”. It soon became clear, however, that the young woman was neither solid nor judicious enough. In fact, she was mad. Whether a modern diagnosis would describe the new Mrs Verney as depressed, bipolar or schizophrenic is unclear. The fact remains that she giggled hysterically when in the company of her in-laws, refused to eat and took to going to bed with her maidservant. None of which was quite what the Verneys had had in mind when they searched for a wealthy brood mare to ensure the continuation of their name and the integrity of their estates.

Other Verney women, too, had difficult lives, which was mostly not their fault. After the parliamentarians triumphed under Oliver Cromwell, Sir Ralph Verney had been obliged to flee to France, from where it was tricky to keep an eye on family matters. Deprived of his fortune, he was unable to provide proper dowries for his sisters, with the result that three of them threw themselves away on a wife beater, jailed debtor and drunkard, respectively. “Not to put too fine a point on it, he was grateful to anyone who would consent to take the girls off his hands,” Mr Tinniswood writes. “Perhaps the saddest thing about all of this is that they were too.”

“The Verneys” is much more than a wonderful family saga, full of spectacular rows and tearful makings-up, joyful births and tragic early deaths. With enormous flair and skill Mr Tinniswood uses the lives of

these ordinary men and women to tell a much larger story about British cultural, political and social life in the 17th century. In doing so he provides a model for how biography and social history—two genres which have tended to remain oddly aloof from one another—can be made to work magnificently together.

The Verneys: A True Story of Love, War and Madness in Seventeenth-Century England.
By Adrian Tinniswood.
Jonathan Cape; 570 pages; £25. To be published in America by Riverhead Books in May

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About sponsorship

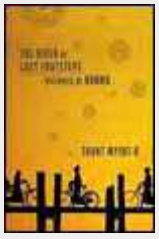
Myanmar

The isolation ward

Mar 1st 2007
From The Economist print edition

MOST writing about the benighted land of Burma, dubbed Myanmar by the grotesque junta running it, falls into one of two traps. Either it plumps for simplification, which is pardonable given the justness of its moral outrage. The conflict does indeed come closer than almost any other to one between baddies (the junta) and the followers of a super-goody (the almost-permanently detained opposition leader, Aung San Suu Kyi). At the other extreme, some writers become bogged down in the bewildering complexity underneath this simple framework: the tangled skein of ethnic rivalries and grudges that have fuelled one of the world's longest running civil wars, fought by more than a dozen armed insurgencies around Myanmar's borders.

The River of Lost Footsteps: Histories of Burma
By Thant Myint-U



Farrar, Straus and Giroux; 361 pages; $25.
Faber and Faber; £20

Buy it at
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Thant Myint-U's fine book seeks the middle ground. An academic historian and a former United Nations official, Mr Thant accuses the simplifiers of an “ahistorical” approach. He argues, justifiably, that Myanmar is “seen within the prism of the past ten or 20 years, as if three Anglo-Burmese wars, a century of colonial rule, an immensely destructive Japanese invasion and occupation, and five decades of civil war, foreign intervention and Communist insurgency had never happened.”

His book is part personal memoir, part history and part polemic. He tells the history of Myanmar from ancient times in an accessible and engaging way. But this is intended also as a contribution to a debate that has raged for nearly two decades among Myanmar's exiled democrats: should the West shun, isolate and bully the generals into engaging with Ms Suu Kyi and her many supporters? Or should it encourage the junta in the hope that, through the blandishments of modernity and economic advancement, it will eventually be coaxed to reform?

Mr Thant is entitled to a hearing. The grandson of U Thant, UN secretary-general in the 1960s, he grew up in America and Thailand, with summer visits to his ancestral homeland. But when Myanmar's pro-democracy movement was brutally crushed in 1988, and thousands of young people fled to makeshift camps on the Thai border, he joined them for some months.

He has since parted company with the exile movement's pro-isolation orthodoxy. Time has moved on, he points out. Most of Myanmar's population was born after 1988. Thus, those for whom that was a life-defining moment are now in a minority. Isolation has not worked: it is “both counterproductive and dangerous”.

There is much in this argument; and it is easy to share the exasperation he seems to feel with some exiled lobbyists. Some have so lost sight of the ends in pursuing the means that each new government sanction or consumer-boycott-induced withdrawal of a foreign investor is celebrated as a triumph in itself.

Mr Thant, however, skirts three difficulties. First, it is wrong to argue, as he does, that “the difference between the Burmese military regime and its counterparts in South Korea, Thailand and Indonesia is not that [it] has been any more repressive.” Oh yes it has; though it is also true, as he goes on, that “the others trusted the advice of technocrats, presided over long periods of economic growth and allowed for the development of civil society.”

Second, isolation has been neither complete nor entirely involuntary. The generals have excluded the world as much as it has shunned them, and have found in China, India and South-East Asia neighbours who are more than ready to deal with them.

Third, unlike many other dictatorships, Myanmar has held an election, and lost it comprehensively. That was a long time ago, in 1990. But nothing that has happened since suggests the winners—Ms Suu Kyi's party—could not repeat the feat if given the chance. So their views, which do not match Mr Thant's, also carry weight.

The River of Lost Footsteps: Histories of Burma.
By Thant Myint-U.
Farrar, Straus and Giroux; 361 pages; $25.
Faber and Faber; £20

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About sponsorship

The Thyssens

Bad blood, bad art

Mar 1st 2007
From The Economist print edition

THYSSEN is the name of a coal and steel dynasty from the Ruhr valley in Germany that supplied armaments in two world wars. Bornemisza is an aristocratic Hungarian family that provided a handle, in the form of baron, for a socially ambitious Thyssen early in the 20th century. One hundred years on, Thyssen-Bornemisza is the name of a large, private art collection that was sold to Spain, whose government paid $350m in 1989 for just half of it—the other half stayed in the family—and provided a substantial gallery to house the paintings.

They had belonged to Hans Heinrich (Heini) Thyssen-Bornemisza, the head of the severely dysfunctional family that was “held together by wealth and divided by greed”, David Litchfield writes in a new book on the family. A collection of paintings has invested a family name that might otherwise be stained by economic exploitation during the second world war with a kind of fragrant immortality.

The Thyssen Art Macabre
By David R.L. Litchfield

Quartet Books; 470 pages; £25

Buy it at
Amazon.com
Amazon.co.uk

The collection was begun by Heinrich Thyssen, a second-generation steelmaker, and the one who found a baroness named Bornemisza. There was one impediment: only a family member could inherit the title of baron. Consequently, he arranged to be adopted by his father-in-law. The adopted son married his adoptive sister. Back in Germany, the family helped finance Hitler early in his political life, but they had second thoughts in the 1930s, relocating the headquarters of their interests in the Netherlands and Switzerland. Overseas ownership helped the family to erase some of the taint of Nazism after the war, and they were able to keep their holdings mostly intact.

There was plenty of money to buy art. Heinrich's heir, Heini, inherited hundreds of paintings in 1947, but he wanted more, and he wanted them quickly. At the climax of his passion, he was adding to the collection at the rate of a painting a week, ending up with 1,500 works.

Mr Litchfield declares that his role was as Thyssen's confessor. He spins an extraordinary tale of great industrial wealth, compulsive acquisition of art, decorated with complicated sub-plots involving serial adultery and divorce. (His failure to decide whether this is industrial history, art history or good gossip must explain the meaningless title.) Thyssen had five wives, though Mr Litchfield's account of these marriages was at the mercy of Thyssen's memory, which was impaired by alcoholism and the arrogance of wealth.

Thyssen would not thank his “confessor”. For example, Mr Litchfield alleges that Thyssen's fourth wife and her lover took a commission from the seller on all Thyssen's purchases, of which there were no fewer than 800 during their marriage. Apparently, he bought a Jackson Pollock merely because he was intrigued by an account of Pollock's death. And Thyssen's fifth wife, Carmen Cervera, a former Miss Spain known as Tita, refused to visit the hairdresser because she feared that hair and nail clippings could be used to prepare a curse on her and her husband.

What counts now, however, is whether the paintings in Madrid are any good. Apart from the professional boosters, critics have not been enthusiastic: “minor works of major artists and major works of minor artists,” said one.

The remarkable generosity of the Spanish government has meant that everything can be hung simultaneously, but not everything is worth showing. (And there is even more on show since Baroness Thyssen arranged the sale of her share of the collection to Spain.) On a recent visit, this reviewer found

gallery after dreary gallery so dispiriting that there was no zest left to appreciate the sudden appearance of a fine painting. The Prado and the Museo Reina Sofia are only a short walk away.

The Thyssen Art Macabre.
By David R.L. Litchfield.
Quartet Books; 470 pages; £25

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New British fiction

Casting a spell

Mar 1st 2007
From The Economist print edition

EVERY so often a novel comes along that is quite original; think of Yann Martel's enchanting “Life of Pi”, for instance. “Salmon Fishing in the Yemen” is another oddball piece of fiction that—despite being told through dry diary extracts, e-mails and reports—is an amusing satire on the tensions between the West and the Middle East, and a commentary on the value of belief to mankind.

Its author, Paul Torday, is as unlikely a first-time novelist (he is 60 with a career spent in industry) as Dr Alfred Jones, his protagonist, is a fictional hero. Jones is a scientist at the National Centre for Fisheries Excellence. Married for 20 years to the odious Mary, the highlight of his career has been the publication in *Trout and Salmon* of his paper, “Effects of Increased Water Acidity on the Caddis Fly Larvae”. Clearly something is missing from his life.

Out of the blue Jones receives a letter. His Excellency Sheikh Mohammad ibn Zaidi bani Tihima wants to create a salmon river in the Yemen's Wadi Aleyn and the sheikh's land agent, the fragrant Harriet Chetwode-Talbot, wants Jones to work out how to do it. Jones's insistence that this is an “absurd and scientifically nonsensical” idea is overruled when Downing Street realises the project's potential. What could be better for the government's popularity than a good-news story coming out of the Middle East for once?

Salmon Fishing in the Yemen
By Paul Torday

To be published in America by Harcourt Books in April Weidenfeld & Nicolson; 321 pages; £12.99.

Buy it at
Amazon.com
Amazon.co.uk

The success of the book lies in the charm of Mr Torday's storyline—his love of salmon fishing shines through his text—and his skill at portraying the petty officialdom and manipulativeness of modern government. Adding breadth is a sharply drawn cast of characters; the toadying spin doctor, Peter Maxwell, is accurately portrayed, as is the spiritually enlightened sheikh who believes that anything is possible if one has faith.

But it is the transformation of the humble Dr Jones from a man bound by convention to one awakened to passion and belief that makes this book both thought-provoking and memorable. That is an achievement for any author, let alone a first-time novelist.

Salmon Fishing in the Yemen.
By Paul Torday.
Weidenfeld & Nicolson; 321 pages; £12.99.
To be published in America by Harcourt Books in April

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New fiction from Australia

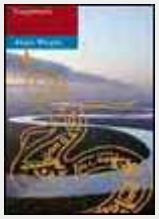
A great divide

Mar 1st 2007
From The Economist print edition

THE last time Australia produced a sweeping novel about relations between the white majority and indigenous aboriginals in the far north of the country was in 1938, when Xavier Herbert published “Capricornia”, a classic of well-intentioned social protest. Now “Carpentaria”, written by Alexis Wright, an aboriginal woman, and published by a small Australian imprint, has been shortlisted for the Commonwealth Writers' prize.

In contrast to Herbert, who was a crotchety white man, Ms Wright's is the authentic aboriginal voice. With humour and occasional farce, but always with an underlying truthfulness, she delivers a brutal portrait of the physical and psychological violence between the white newcomers and the original inhabitants.

Carpentaria
By Alexis Wright



Giramondo Press; 519 pages; A$29.95

Much of “Carpentaria” is seen through the eyes of the Phantom family—husband Normal, a fish embalmer; Angel Day, his wife, the queen of the rubbish dump; and his son, Will, who fights against the mining company that dominates the cyclone-prone town of Desperance. The town is deeply segregated: the local pub is divided in two, a saloon for the rednecks, and a “snakepit” overflowing with “the darkies” next door.

Ms Wright punctuates the bleak reality of everyday existence in Desperance with long lyrical diversions. There are affecting and affectionate descriptions of life in Pricklebush, the shanty town where all the aboriginals live, the procession across Australia of the travelling evangelical, Mozzie Fishman, and the zany behaviour of the family's matriarch, Angel Day.

The influence of Carlos Fuentes, a Mexican novelist and essayist and one of Ms Wright's favourite writers, is never far away. Ms Wright has said that she put her feelings about race relations into fiction because “if I tried to write the real story I would fail.” As she told a writers' festival, “there are stories I know about people from my homeland that cannot be spoken about outside of closed doors...Our people die young, too frequently, and many die badly.”

“Carpentaria” has caused a stir in Australia, though most reviewers have dwelt on its bawdy humour rather than on the harrowing revelations of the aboriginals' circumstances. Ms Wright knows of what she writes. Born near the Gulf country, she worked as a government bureaucrat on aboriginal issues, and later campaigned for aboriginal land rights. “Carpentaria”, her second and most ambitious novel, was signed up by Ivor Indyk of Giramondo Press after being turned down by the bigger imprints in Australia. It has yet to be sold in Britain or America.

Mr Indyk gained considerable renown when an earlier novel he published, “Shanghai Dancing” by Brian Castro, won three literary prizes in Australia in 2004. If the same happens with “Carpentaria” it will say something about Ms Wright's writing talent and Mr Indyk's eye. But it will also be a recognition of the sordid state of affairs between aboriginals and whites in Australia.

Carpentaria.
By Alexis Wright.
Giramondo Press; 519 pages; A$29.95

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New cinema

Signs of the times

Mar 1st 2007
From The Economist print edition

David Fincher's gripping new drama

THE challenge of making a serious film about the Zodiac, a serial killer who terrorised northern California in the late 1960s and early 1970s, is that he was never caught. By focusing on the men who tried to catch the murderer and the effect the investigation had on their lives, David Fincher weaves a potent spell.

James Vanderbilt's intelligent, factual script is based on a book by Robert Graysmith, who became intrigued by the letters the Zodiac wrote to the San Francisco newspaper where he worked as a political cartoonist. Played by Jake Gyllenhaal, Graysmith is that familiar figure, the earnest amateur sleuth solving crimes that baffle the authorities. Dave Toschi (Mark Ruffalo), a San Francisco homicide detective, and Paul Avery (Robert Downey junior), a star reporter, are also hunting the Zodiac. The three men stay on the case for two decades, during which the embittered Avery sinks into substance abuse, Toschi is transferred from the homicide department under a cloud, and Graysmith's marriage comes to grief.

Obsessed investigators are common in films about serial killers, a genre in which Mr Fincher scored a notable success in 1995 with “Seven”. But what was a melodramatic device in that film becomes gripping drama in “Zodiac”, which has also seen a refining of his visual style. “Seven” was flashy; “Zodiac” is sober and ravishingly elegant.

Instead of dwelling on gruesome images, Mr Fincher sets our nerves on edge with three brutal crimes, then mesmerises us with a mystery—just as the Zodiac did. After an initial killing spree, he continued to hold the Bay Area in thrall with threatening letters accompanied by blocks of cipher code, which newspapers printed like the morning crossword. During one sequence the words of the taunting messages even seem to float in the air around the frustrated investigators.

Mr Fincher aims to tell a fascinating story, not to exorcise a collective obsession. Jack the Ripper, who was never caught, became an industry, whereas the solution “Zodiac” proposes is convincing enough to forestall a stream of books and films in which the Zodiac turns out to be Spiro Agnew, say, or Janis Joplin. That should at least put a dent in the undying notoriety this particular psychopath killed to achieve.

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Correction: Iwo Jima

Mar 1st 2007
From The Economist print edition

An editing error in a piece of late copy resulted in the battle of Iwo Jima being described as "pointless" ("Two-handed combat", February 3rd). This was historically inaccurate and we apologise to those who found it offensive.

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About sponsorship

Mario Chanes de Armas

Mar 1st 2007
From The Economist print edition

Mario Chanes de Armas, prisoner of Fidel Castro, died on February 24th, aged 80

Corbis

ON DECEMBER 2nd 1956 Mario Chanes de Armas found himself in a mangrove swamp on the south-east coast of Cuba. He was rocking, faint with sea-sickness, in a 60-foot wooden yacht, the *Granma*, crammed with 82 people and stinking of spilled petrol. Their equipment had been jettisoned at sea; most of their weapons had been lost among the mangroves. They had no water and now, to cap it all, the troops of Fulgencio Batista were about to fire on them.

With him was Fidel Castro. In all the most striking events of his life so far, this burly, garrulous figure had been beside him. He stood out from the rest, a strange mixture of Oriente farm boy and privately educated lawyer, brimming with self-confidence. Mr Chanes de Armas, though he was 30 too, felt younger and in awe of him.

Together, almost three years earlier, they had tried to storm the Moncada barracks in stolen soldiers' uniforms. Mr Chanes de Armas had patiently accepted his sentence of ten years from the judge, but Fidel had given a four-hour speech of defiance. Together, they served their time in Batista's New Model Prison on the Isle of Pines, eating spaghetti with calamari, lounging about in shorts, while Fidel wrote. Together, they were photographed leaving the jail 22 months later, the result of an unexpected amnesty, waving arms and hats. When the revolutionaries regrouped in Mexico Mr Chanes de Armas found himself, naturally, at Mr Castro's feet. He was trained by him there until, one November night, they boarded the *Granma* and slipped away, without lights, to drive out dictatorship from Cuba.

There were other dangerous times. Mr Chanes de Armas remembered them in dim, rare flashes as he sat, a frail figure in a wheelchair, in a nursing home in Hialeah in Florida in his last years. The months spent after the *Granma* invasion in the Sierra Maestra, among the forests and the fog, eating boiled yucca and sweet potatoes without salt; his journey, as a wanted man, to Havana; his arrest in 1958 for going to Florida, secretly, to get dynamite to advance the revolution. But all this seemed to pale beside what had happened to him afterwards at the hands of his friend.

He was a simple man, he always said, and a quiet type. His family made beer, and he would have been happy enough to go into that business for himself. But at school and at union meetings he had been led to think about liberty and democracy, especially by Fidel, who spoke about them better than anyone else. Mr Chanes de Armas got involved in Moncada and the *Granma* expedition to bring free elections to Cuba,

and a proper democratic constitution. As a good marksman, he would do his bit in any fighting. But after the euphoria of toppling Batista in January 1959, his friend proved indifferent to human rights and liberties. He seemed now to be a megalomaniac, his speeches filled with “vehement irrationality” and all power revolving round himself. And, far worse, he had become a devoted communist. That was not the plan. Horrified, Mr Chanes de Armas first punched him, then drifted away.

Planted like a tree

In 1961 he returned to the Isle of Pines. His crime was “counter-revolution”. He was said to have tried to assassinate Mr Castro, but he denied that he had ever been enlisted. The falling-out was personal and ideological. His face had now been airbrushed out of the photographs in which he smiled as Fidel's friend.

Prison was much less comfortable than before. That spring the Isle of Pines had been sown with dynamite, linked up to the wiring system in the prison, so that any American attempt to rescue the prisoners would blow them to smithereens. It was, Mr Chanes de Armas remembered, “like sleeping on a powder keg”. Prisoners—in 1961, around 6,000 of them—were meant to submit to communist “re-education”; he became the leader of those who resisted. He refused to wear the blue uniform of a common criminal, instead going naked or in underpants. He took part in forced labour as slowly as he could, digging ditches or chopping up blocks of marble in the fierce, dripping Cuban heat. For weeks at a time he was put in *tapiadas*, steel isolation cells, and *gavetas*, “drawers”, so narrow that he could only stand. He and his followers were called *plantados*, planted squarely—though sparsely—as trees across Mr Castro's path.

He was in prison for one day short of 30 years: longer than Nelson Mandela, though few noticed. His only son was born and died, at 24, while he was inside; being such a troublemaker, he was not allowed to attend the funeral. On his release, by the good offices of the government of Chile, his first action was to go to the cemetery to place flowers on the grave.

In 1993 he was permitted to leave for Miami. He could have become the darling of the hardline Cuban exiles, but rejected that. He felt no hate, he always said; vengeance was “for cowards”. On the rights and wrongs of the revolution he would not often let himself be drawn; in his last two years, Alzheimer's shadowed everything. But sometimes on the television he would glimpse the flickering figure of a bearded old man his own age; and Mr Chanes de Armas would clench his fist and cry “Carajo!”, his own obscene revolutionary salute.

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Overview

Mar 1st 2007
From The Economist print edition

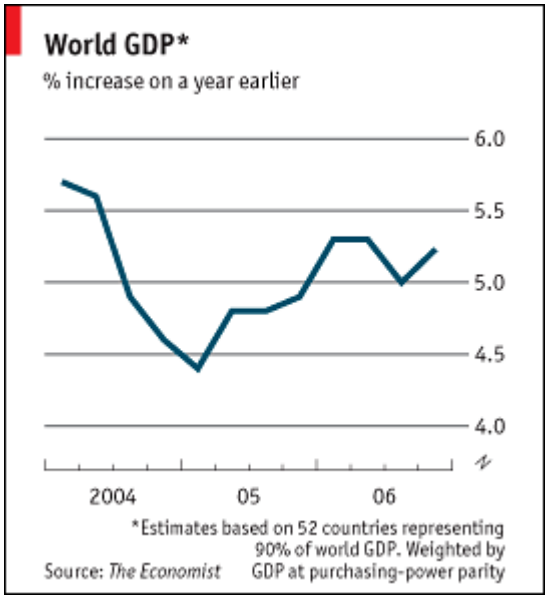
In **America** new orders for durable goods fell by 7.8% in January. GDP grew at an annualised rate of 2.2% in the fourth quarter, revised down from a preliminary estimate of 3.5%. There were mixed signals from America's housing market. Sales of new one-family homes fell by 16.6% in January, but sales of existing homes rose by 3% in the month.

Germany's unemployment rate fell to 9.3% in February, the lowest since August 2001.

Industrial production in **Japan** fell by 1.5% in January, the first drop in four months.

In **South Korea** industrial output rose by 1.3% in January. **Brazil's** GDP grew by 1.1% in the fourth quarter.

Poland's central bank kept its benchmark interest rate at 4% on February 28th.



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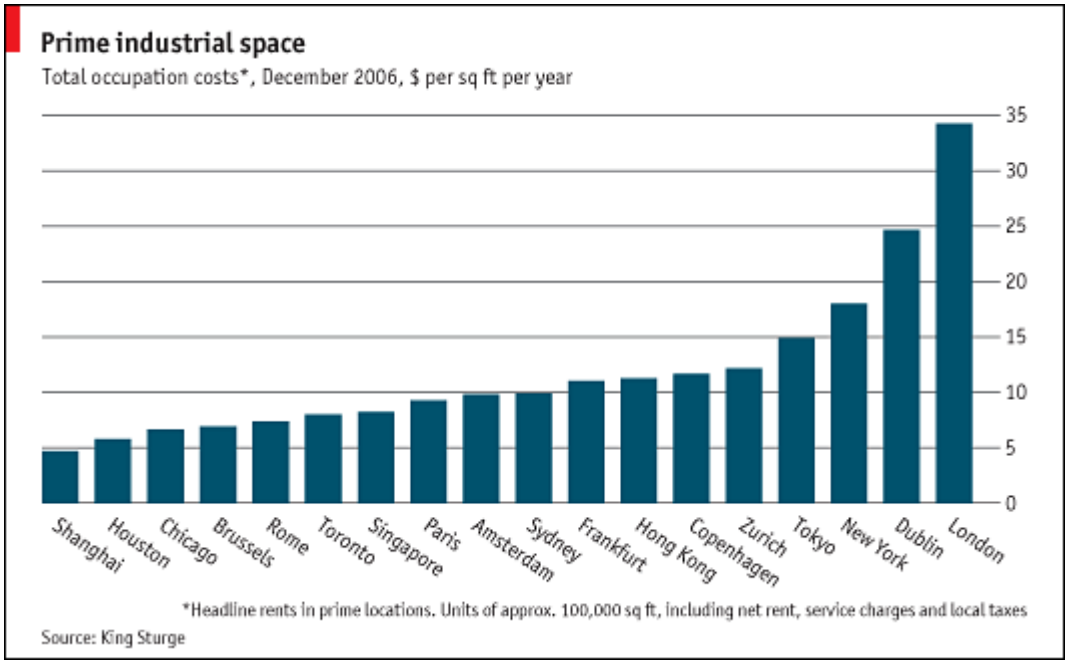
Prime industrial space

Mar 1st 2007
From The Economist print edition



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Output, prices and jobs

Mar 1st 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2006†	2007†	latest	latest	year ago	2007†	rate‡, %
United States	+3.1 Q4	+2.2	+3.4	+2.6	+2.6 Jan	+2.1 Jan	+4.0	+1.9	4.6 Jan
Japan	+2.1 Q4	+4.8	+2.1	+1.9	+4.3 Jan	+0.3 Dec	–0.4	+0.4	4.1 Dec
China	+10.4 Q4	na	+10.5	+9.4	+14.9 Nov	+2.2 Jan	+1.9	+2.5	9.8 2006
Britain	+3.0 Q4	+3.2	+2.7	+2.5	+0.5 Dec	+2.7 Jan**	+1.9	+2.2	5.5 Dec††
Canada	+2.5 Q3	+1.7	+2.8	+2.3	–2.2 Nov	+1.2 Jan	+2.8	+1.7	6.2 Jan
Euro area	+3.3 Q4	+3.6	+2.7	+2.0	+4.0 Dec	+1.8 Jan	+2.4	+2.0	7.4 Jan
Austria	+3.3 Q4	+3.3	+3.1	+2.5	+5.6 Nov	+1.6 Jan	+1.2	+1.7	4.6 Jan
Belgium	+3.1 Q3	+2.5	+2.7	+2.1	+3.5 Dec	+1.8 Feb	+2.4	+1.9	11.8 Jan‡‡
France	+2.2 Q4	+2.6	+2.0	+2.0	+0.7 Dec	+1.2 Jan	+2.0	+1.4	8.6 Dec
Germany	+3.7 Q4	+3.5	+2.6	+1.7	+5.5 Dec	+1.6 Feb	+2.1	+2.1	9.3 Feb
Greece	+4.4 Q4	na	+4.1§	+3.5§	+3.1 Dec	+2.7 Jan	+3.2	+2.8§	8.3 Q3
Italy	+2.9 Q4	+4.6	+1.8	+1.3	+5.0 Dec	+1.7 Jan	+2.2	+1.9	6.8 Q3
Netherlands	+2.7 Q4	+2.6	+2.8	+2.5	+5.6 Dec	+1.4 Jan	+1.3	+1.8	5.0 Jan††
Spain	+4.0 Q4	+4.8	+3.7	+3.0	nil Dec	+2.5 Feb	+4.0	+2.6	8.6 Jan
Czech Republic	+5.8 Q3	+5.6	+6.0	+4.8	+3.0 Dec	+1.3 Jan	+2.9	+3.3	7.9 Jan
Denmark	+2.9 Q4	+0.6	+3.5	+2.4	+0.6 Dec	+1.8 Jan	+2.1	+1.9	3.9 Dec
Hungary	+3.2 Q4	+3.2	+3.7	+2.4	+14.0 Dec	+7.8 Jan	+2.7	+6.0	7.5 Jan††
Norway	+2.6 Q3	+5.2	+2.5§	+2.5§	–2.0 Dec	+1.2 Jan	+1.8	+2.6§	2.8 Jan††
Poland	+5.8 Q3	na	+5.3	+4.7	+15.6 Jan	+1.7 Jan	+0.7	+2.1	15.1 Jan‡‡
Russia	+6.5 Q3	na	+6.7	+6.5	+8.4 Jan	+8.0 Jan	+10.6	+8.8	7.1 Jan‡‡
Sweden	+4.7 Q4	+5.0	+4.6	+3.5	+10.3 Dec	+1.9 Jan	+0.6	+1.8	5.3 Jan‡‡
Switzerland	+2.4 Q3	+1.5	+2.7	+2.0	+8.2 Q3	+0.1 Jan	+1.3	+0.9	3.3 Jan‡‡
Turkey	+3.4 Q3	na	+5.2	+4.0	+2.5 Dec	+9.9 Jan	+7.9	+8.4	9.1 Q3‡‡
Australia	+2.2 Q3	+1.2	+2.5	+2.8	+0.9 Q3	+3.3 Q4	+2.8	+2.9	4.5 Jan
Hong Kong	+7.0 Q4	+5.3	+6.0	+5.0	–0.6 Q3	+2.0 Jan	+1.9	+2.5	4.4 Jan††
India	+9.2 Q3	na	+8.3	+7.4	+11.1 Dec	+6.9 Dec	+5.6	+6.2	7.6 2006
Indonesia	+6.1 Q4	na	+5.3	+5.8	+24.2 Nov	+6.3 Feb	+17.9	+6.9	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.2	+6.3 Dec	+3.2 Jan	+3.2	+3.3	3.1 Q3
Pakistan	+6.6 2006§§	na	+6.2§	+6.6§	+6.8 Sep	+6.6 Jan	+8.8	+7.4§	na
Singapore	+6.6 Q4	+7.9	+7.7	+5.0	+14.6 Jan	+0.3 Jan	+1.8	+1.0	2.6 Q4
South Korea	+4.0 Q4	+3.4	+4.9	+4.2	+7.4 Jan	+1.7 Jan	+2.2	+2.2	3.3 Jan
Taiwan	+4.0 Q4	na	+4.1	+3.9	–1.7 Dec	+0.4 Jan	+2.7	+1.5	3.9 Jan
Thailand	+4.7 Q3	+6.0	+4.3	+4.3	+7.0 Dec	+2.3 Feb	+5.6	+3.3	1.2 Nov
Argentina	+8.7 Q3	+10.8	+7.9	+6.3	+2.2 Jan	+9.7 Jan	+12.1	+9.8	8.7 Q4‡‡
Brazil	+3.8 Q4	+4.5	+3.0	+3.3	+2.8 Dec	+3.0 Jan	+5.7	+3.7	9.3 Jan‡‡
Chile	+2.9 Q3	–0.2	+4.7	+5.3	+3.7 Jan	+2.8 Jan	+4.1	+2.5	6.1 Jan††††
Colombia	+7.7 Q3	+8.1	+5.1	+4.5	+12.3 Dec	+4.7 Jan	+4.6	+4.2	11.0 Nov‡‡
Mexico	+4.3 Q4	+1.9	+4.4	+3.2	+1.6 Dec	+4.0 Jan	+3.9	+3.8	4.0 Jan‡‡
Venezuela	+10.2 Q3	na	+7.8	+5.5	+12.2 Sep	+18.4 Jan	+13.1	+20.2	10.1 Q3‡‡
Egypt	+7.1 Q3	na	+5.5	+5.4	+4.0 2005	+12.4 Jan	+3.4	+8.5	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.2	+4.2	+10.5 Dec	+0.1 Jan	+2.7	+1.9	7.7 Q4
Saudi Arabia	+4.2 2006§	na	+4.2§	+4.1§	na	+2.9 Dec	+1.2	+2.5§	na
South Africa	+6.1 Q4	+5.6	+4.3	+4.2	+5.0 Dec	+6.0 Jan	+4.0	+5.4	25.6 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+11.6 Q3	+11.7	+11.5§	+9.2§	+5.7 Dec	+5.1 Jan	+4.7	+4.3§	4.3 Dec
Finland	+5.1 Q4	+3.8	+5.2§	+2.7§	–3.2 Jan	+2.3 Jan	+0.8	+1.9§	7.0 Jan
Iceland	+0.3 Q3	+0.4	+2.2§	+2.7§	na	+7.4 Feb	+4.1	+4.0§	1.2 Dec‡‡
Ireland	+7.7 Q3	+10.8	+6.2§	+5.3§	+17.0 Dec	+5.2 Jan	+3.0	+3.4§	4.5 Jan
Latvia	+11.9 Q4	na	+11.6§	+9.2§	+3.2 Dec	+7.1 Jan	+7.5	+6.0§	6.1 Dec
Lithuania	+6.6 Q4	+6.6	+7.3§	+6.5§	na	+4.0 Jan	+3.5	+1.8§	5.7 Dec
Luxembourg	+5.4 Q3	+4.1	+6.0§	+4.6§	+4.5 Nov	+2.3 Jan	+2.9	+3.0§	4.8 Dec‡‡
New Zealand	+1.3 Q3	+1.0	+1.7§	+2.6§	–1.4 Q3	+2.6 Q4	+3.1	+3.0§	3.7 Q4
Peru	+9.0 Dec	na	+6.0	+5.4	+3.0 Nov	+0.6 Jan	+1.9	+1.6	7.5 Dec‡‡
Philippines	+6.5 Q4	+5.6	+5.5	+5.3	–15.4 Nov	+3.9 Jan	+6.7	+4.4	8.0 Q3‡‡
Portugal	+1.5 Q3	–0.6	+1.2§	+1.4§	+3.2 Dec	+2.6 Jan	+2.7	+2.4	8.2 Q4‡‡
Slovakia	+9.5 Q4	na	+7.5§	+6.3§	+8.9 Dec	+3.0 Jan	+4.1	+2.8	12.0 Dec
Slovenia	+5.6 Q3	na	+5.1§	+4.0§	+4.2 Dec	+2.1 Feb	+2.2	+2.3	8.6 Dec‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.2% in Jan. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity price index

Mar 1st 2007
From The Economist print edition

The Economist commodity-price index
2000=100

	Feb 13th	Feb 20th	Feb 27th*	% change on one month	% change on one year
Dollar index					
All items	185.3	188.5	192.6	+4.2	+24.2
Food	157.8	159.8	159.7	+2.7	+16.2
Industrials					
All	221.0	225.7	235.2	+5.5	+32.1
Nfa†	156.4	156.3	157.1	+1.2	+4.8
Metals	256.2	263.6	277.9	+6.9	+43.7
Sterling index					
All items	144.6	146.1	148.6	+3.9	+10.6
Euro index					
All items	131.7	132.5	134.5	+1.9	+11.8
Gold					
$ per oz	664.15	657.28	679.47	+5.2	+21.4
West Texas Intermediate					
$ per barrel	58.94	58.25	60.51	+6.5	−1.8

*Provisional. †Non-food agriculturals.

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About sponsorship

Trade, exchange rates, budget balances and interest rates

Mar 1st 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Feb 28th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−836.1 Dec	−880.3 Q3	−6.1	–	–	−1.8	5.17	4.56
Japan	+81.0 Dec	+170.4 Dec	+3.8	118	116	−4.9	0.57	1.63
China	+183.5 Jan	+160.8 2005	+7.0	7.74	8.04	−1.6	2.85	3.14
Britain	−155.3 Dec	−69.7 Q3	−2.8	0.51	0.57	−2.7	5.50	4.79
Canada	+47.2 Dec	+28.9 Q3	+1.1	1.17	1.14	0.8	4.19	4.05
Euro area	−9.4 Dec	−20.2 Dec	−0.1	0.76	0.84	−1.2	3.85	na
Austria	−0.2 Dec	+12.2 Q3	+1.4	0.76	0.84	−1.2	3.85	3.95
Belgium	+16.5 Dec	+6.8 Sep	+2.0	0.76	0.84	0.1	3.90	3.97
France	−36.6 Dec	−31.8 Dec	−1.1	0.76	0.84	−2.4	3.85	3.96
Germany	+206.0 Dec	+129.4 Dec	+4.1	0.76	0.84	−0.8	3.85	3.91
Greece	−43.4 Nov	−29.6 Dec	−7.1‡	0.76	0.84	−2.9	3.85	4.17
Italy	−26.2 Dec	−42.1 Dec	−1.7	0.76	0.84	−2.8	3.85	4.15
Netherlands	+41.4 Dec	+59.7 Q4	+7.6	0.76	0.84	0.6	3.85	3.94
Spain	−112.7 Dec	−110.7 Nov	−8.5	0.76	0.84	0.3	3.85	3.96
Czech Republic	+2.0 Dec	−5.2 Q3	−3.2	21.4	23.7	−4.2	2.58	3.66
Denmark	+6.7 Dec	+6.7 Dec	+2.7	5.64	6.25	3.5	4.03	3.92
Hungary	−2.7 Dec	−6.9 Q3	−5.2	193	212	−7.1	8.16	7.00
Norway	+56.0 Jan	+56.0 Q3	+17.5‡	6.14	6.71	19.3	4.30	4.51
Poland	−5.1 Dec	−7.1 Dec	−2.3	2.96	3.16	−2.7	4.22	5.22
Russia	+140.8 Dec	+95.6 Q4	+6.2	26.1	28.0	6.0	10.50	6.27
Sweden	+20.0 Jan	+28.4 Q4	+6.3	7.02	7.92	2.9	3.23	3.77
Switzerland	+9.7 Jan	+105.9 Q3	+14.0	1.22	1.31	0.3	2.22	2.51
Turkey	−51.9 Dec	−31.9 Dec	−7.0	1.41	1.31	−2.6	18.98	19.84
Australia	−9.5 Dec	−39.5 Q3	−5.0	1.27	1.34	1.3	6.35	5.68
Hong Kong	−18.9 Jan	+19.3 Q3	+9.8	7.81	7.76	2.0	4.24	4.08
India	−54.6 Jan	−13.7 Q3	−2.7	44.3	44.4	−4.3	7.75	8.09
Indonesia	+39.7 Jan	+7.0 Q3	+1.2	9,132	9,183	−0.9	8.93	6.42§
Malaysia	+29.5 Dec	+22.2 Q3	+11.3	3.50	3.71	−4.3	3.68	5.06§
Pakistan	−13.1 Jan	−6.1 Q3	−4.8‡	60.7	59.9	−4.7	10.20	6.80§
Singapore	+34.4 Jan	+36.3 Q4	+24.5	1.53	1.62	0.3	3.34	3.07
South Korea	+17.3 Feb	+6.1 Dec	+0.1	942	971	0.4	4.94	4.90
Taiwan	+10.9 Jan	+25.2 Q4	+5.6	33.0	32.3	−2.2	1.82	2.05
Thailand	+2.2 Dec	+3.2 Dec	+1.3	34.0	39.0	−1.4	4.75	4.47
Argentina	+12.0 Jan	+6.7 Q3	+2.3	3.10	3.07	1.1	9.50	na
Brazil	+45.8 Jan	+14.2 Jan	+0.7	2.11	2.13	−3.2	12.93	6.16§
Chile	+23.9 Jan	+5.2 Q3	+1.0	539	518	4.3	5.04	5.12§
Colombia	nil Nov	−2.3 Q3	−2.0	2,231	2,248	−1.4	6.66	6.19§
Mexico	−8.2 Jan	−1.5 Q4	−0.5	11.2	10.5	−0.4	7.05	7.99
Venezuela	+33.0 Q4	+27.2 Q4	+10.1	3,874	2,599	−3.8	10.09	6.55§
Egypt	−11.7 Q3	+3.0 Q3	+1.4	5.70	5.73	−7.6	8.37	5.49§
Israel	−7.3 Jan	+6.7 Q3	+2.6	4.22	4.70	−2.7	4.41	4.98
Saudi Arabia	+165.7 2006	+90.0 2005	+17.3‡	3.75	3.75	12.3	5.24	na
South Africa	−10.2 Jan	−13.5 Q3	−5.3	7.27	6.18	−2.0	9.40	7.63
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.4 Dec	−2.3 Dec	−12.7‡	11.8	13.1	1.3	3.84	na
Finland	+12.1 Dec	+12.6 Dec	+5.6‡	0.76	0.84	2.3	3.83	3.98
Iceland	−2.1 Jan	−3.9 Q3	−19.7‡	66.3	65.1	0.8	15.13	na
Ireland	+35.5 Dec	−6.5 Q3	−4.2‡	0.76	0.84	0.8	3.85	3.96
Latvia	−5.0 Dec	−4.3 Dec	−19.5‡	0.54	0.58	−1.2	5.09	na
Lithuania	−5.2 Dec	−3.4 Dec	−10.3‡	2.61	2.89	−0.5	3.92	na
Luxembourg	−5.2 Dec	+4.8 Q3	na	0.76	0.84	−0.8	3.85	na
New Zealand	−4.0 Jan	+6.1 Q3	−9.1‡	1.43	1.50	3.5	6.75	5.82
Peru	+8.9 Dec	+2.5 Q4	+1.0	3.19	3.31	0.1	4.50	na
Philippines	−4.5 Dec	+4.4 Sep	+3.8	48.5	51.4	−0.5	5.56	na
Portugal	−23.2 Nov	−18.2 Dec	−7.8‡	0.76	0.84	−3.7	3.85	4.10
Slovakia	−3.1 Dec	−5.4 Oct	−6.2‡	26.1	31.0	−3.0	4.57	4.33
Slovenia	−2.0 Dec	−1.2 Dec	−1.6‡	0.76	0.84	−1.2	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds. **New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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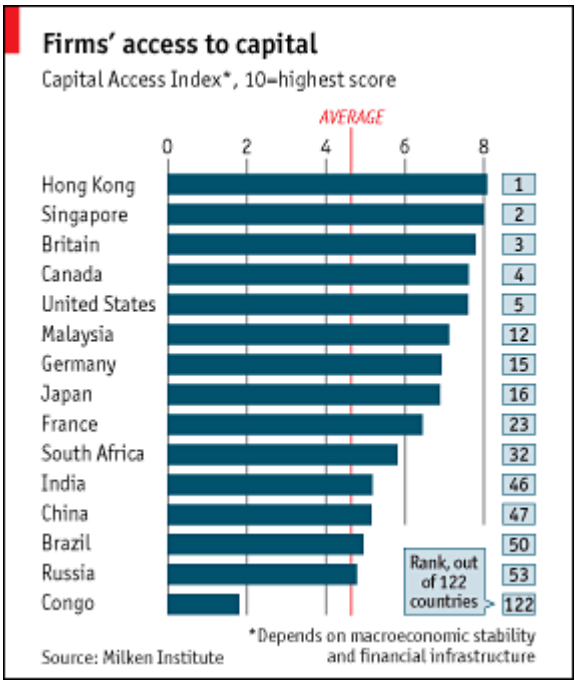
Firms' access to capital

Mar 1st 2007
From The Economist print edition

Hong Kong has replaced Britain as the best place for new businesses to raise funds, according to the Milken Institute, a Californian think-tank. The institute's Capital Access Index is a summary measure of the range, flexibility and sturdiness of financial markets in 122 countries. Each country is assessed according to 56 quantitative and qualitative indicators, ranging from the regulation of securities exchanges to bank soundness and credit-market ratings. The 2006 rankings bring Canada into the top five, ahead of America and at the expense of Sweden. The average composite score was 4.64 out of 10 last year, down by 0.04 from 2005. Brazil, China, India and Russia all beat the average.



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Markets

Mar 1st 2007
From The Economist print edition

Markets

	Index Feb 28th	% change on one week	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
United States (DJIA)	12,268.6	−3.7	+14.5	+14.5
United States (S&P 500)	1,406.8	−3.5	+12.7	+12.7
United States (NAScomp)	2,416.2	−4.1	+9.6	+9.6
Japan (Nikkei 225)	17,604.1	−1.7	+9.3	+8.8
Japan (Topix)	1,752.7	−1.9	+6.2	+5.8
China (SSEA)	3,025.8	−3.9	+147.8	+158.4
China (SSEB, $ terms)	178.3	−4.9	+175.8	+187.6
Britain (FTSE 100)	6,171.5	−2.9	+9.8	+25.4
Canada (S&P TSX)	13,045.0	−2.1	+15.7	+15.3
Euro area (FTSE Euro 100)	1,281.9	−3.3	+17.7	+31.8
Euro area (DJ STOXX 50)	4,087.1	−3.4	+14.2	+27.9
Austria (ATX)	4,335.5	−4.4	+18.2	+32.4
Belgium (Bel 20)	4,305.2	−4.7	+21.3	+35.8
France (CAC 40)	5,516.3	−3.1	+17.0	+31.0
Germany (DAX)*	6,715.4	−3.3	+24.2	+39.1
Greece (Athex Comp)	4,504.0	−4.3	+22.9	+37.7
Italy (S&P/MIB)	41,155.0	−2.7	+15.3	+29.1
Netherlands (AEX)	490.2	−3.6	+12.2	+25.7
Spain (Madrid SE)	1,581.7	−4.0	+36.8	+53.2
Czech Republic (PX)	1,628.0	−2.6	+10.5	+27.3
Denmark (OMXCB)	433.7	−4.5	+17.9	+32.2
Hungary (BUX)	23,371.2	−2.8	+12.4	+24.6
Norway (OSEAX)	498.8	−3.7	+32.4	+45.9
Poland (WIG)	51,900.4	−5.3	+45.8	+60.3
Russia (RTS, $ terms)	1,858.1	−2.5	+50.2	+65.1
Sweden (Aff.Gen)	368.1	−4.2	+25.5	+42.3
Switzerland (SMI)	8,789.7	−4.5	+15.9	+25.1
Turkey (ISE)	41,431.0	−3.4	+4.2	−0.5
Australia (All Ord.)	5,816.5	−2.0	+23.5	+32.8
Hong Kong (Hang Seng)	19,651.5	−4.8	+32.1	+31.1
India (BSE)	12,938.1	−8.8	+37.7	+40.0
Indonesia (JSX)	1,741.0	−4.2	+49.7	+61.4
Malaysia (KLSE)	1,196.5	−6.4	+33.0	+43.5
Pakistan (KSE)	11,180.0	−3.0	+17.0	+15.3
Singapore (STI)	3,104.2	−5.8	+32.2	+43.7
South Korea (KOSPI)	1,417.3	−2.3	+2.8	+10.3
Taiwan (TWI)	7,902.0	+1.2	+20.7	+20.3
Thailand (SET)	677.1	−2.2	−5.1	+14.6
Argentina (MERV)	2,067.6	−6.2	+34.0	+30.7
Brazil (BVSP)	43,892.0	−4.8	+31.2	+44.9
Chile (IGPA)	12,844.9	−3.5	+39.5	+32.5
Colombia (IGBC)	10,113.1	−5.2	+6.3	+8.9
Mexico (IPC)	26,639.0	−7.2	+49.6	+42.6
Venezuela (IBC)	50,533.7	+3.0	+147.8	+65.4
Egypt (Hermes)	62,987.3	−2.3	+13.8	+14.7
Israel (TA-100)	970.7	−2.3	+17.2	+28.0
Saudi Arabia (Tadawul)	8,176.4	−0.8	−51.1	−51.1
South Africa (JSE AS)	25,796.0	−1.9	+42.5	+24.3
Europe (FTSEurofirst 300)	1,481.9	−3.4	+16.2	+30.1
World, dev'd (MSCI)	1,490.4	−2.9	+18.5	+18.5
Emerging markets (MSCI)	895.5	−4.5	+26.8	+26.8
World, all (MSCI)	368.8	−3.0	+19.1	+19.1
World bonds (Citigroup)	664.4	+1.4	+7.1	+7.1
EMBI+ (JPMorgan)	412.8	nil	+12.0	+12.0
Hedge funds (HFRX)	1,297.2	−1.3	+11.1	+11.1
Volatility, US (VIX)	15.4	10.2	12.1	(levels)
CDSs, Eur (iTRAXX)†	19.1	−4.5	−48.0	−41.8
CDSs, N Am (CDX)†	28.5	+9.7	−38.1	−38.1
Carbon trading (EU ETS) €	0.90	+5.9	−95.7	−95.2

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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